

JPRS-CAR-92-079
21 October 1992

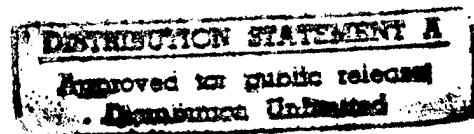


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NATIONAL AFFAIRS, POLICY

Article Views County-Level Reform

HK0610105292 Beijing ZHONGGUO JINGJI TIZHI
GAIGE in Chinese No 6, 23 Jun 92 pp 11-17

[Article by He Guanghui (6320 0342 6540): "Quickening the Pace of County-Level Comprehensive Reform"]

[Text] Since the beginning of the year, various aspects of the reform and opening up work have made considerable progress, and the situation has developed and changed quite rapidly. The spirit of Comrade Deng Xiaoping's remarks during his southern tour, in particular, has exceedingly encouraged cadres at all levels and has called forth the reform enthusiasm of the entire party and people throughout the country. We can say that quickening the pace of reform and further expanding openness have become the main theme of China's current economic life.

Under the very good conditions of reform and opening up today, summing up and exchanging county-level reform experiences and quickening the pace of county-level reform in order to set up as soon as possible a new economic structure which integrates planning and the market in counties (county-level cities) that possess the right conditions are undoubtedly of great significance.

The Main Practice and Experience of County-Level Comprehensive Reform

As part of China's entire reform effort, county-level comprehensive reform was first advanced in the early 1980's on the basis of rural reform. In 1981, the Sichuan Provincial Party Committee first decided to set aside Guanghan, Qionglai, and Xindu as pilot counties for economic structure reform. Then it permitted the three counties to be responsible for their own finances and to contract for the purchase of grain and some agricultural and sideline products. In 1984, 11 provinces and regions, including Shandong, Liaoning, and Hubei, set aside a number of pilot counties for comprehensive reform and prepared for the experiments. In December 1984, the Central Rural Work Conference clearly stated: "The comprehensive reform of county-level units can transcend the microeconomic level so that the contradiction between microeconomic relaxation and macroeconomic coordination can be alleviated, thus being conducive to enhancing the state's capacity to guide economic activities. It can promote the merger of urban and rural economies, remove the barriers between urban and rural areas, coordinate their different interests, and promote their common development as a whole." The No 1 Document, issued by the central authorities in 1985 after the conference, demanded that "the county-level government's administrative and economy-coordinating capabilities be strengthened." It also stated that all localities could select several counties and gradually increase, on a trial basis, their responsibility for their own finances. The Central Rural Work Conference held in December

1985 stated once again that "county-level comprehensive reform must be further promoted." Since then, all localities have attached more importance to county-level reform. Jiangsu, Shandong, Sichuan, Guangdong, Liaoning, Anhui, Henan, Shanxi, and other provinces have formulated principles and policies for county-level comprehensive reform in keeping with the central authorities' plans and demands and in light of their own realities, and vigorously proceeded with various types of experimental work. According to April 1992 statistics, 23 provinces, municipalities, and autonomous regions across the country had designated 290 pilot counties (county-level cities) for comprehensive reform.

County-level comprehensive reform is another new exploration following the practice of the contract responsibility system with remuneration linked to output in rural areas and is the deepening of rural reform. At the beginning of its initiation, county-level comprehensive reform did not have any available pattern to refer to. As urban and rural reform continued to deepen, however, over 1,000 nonpilot [mian shang 7240 0006] counties (county-level cities) began to vigorously proceed with reform experiments as well. Numerous experiences of success have been obtained—in both pilot and nonpilot counties—and many new ways to implement county-level comprehensive reform and of developing the county-level economy have been found. Judging from the experiences shared at the National Conference for the Exchange of County-Level Comprehensive Reform Experiences, which was held in Jiangsu's Changshu City this time, county-level comprehensive reform has roughly the following characteristics:

—By beginning with the integration of agriculture, industry, and commerce, it has removed the boundary between town and country and has removed the barriers between departments, established the concept of large-scale agriculture, and explored new ways for the coordinated development of the urban and rural economies.

Agriculture, industry, and commerce has been integrated through the process transforming China's agriculture from the natural economy to the commodity economy and when urban and rural reforms have been mixed. Since the 1980's, following the state's relaxation of controls on the majority of agricultural and sideline products, the commodity rate of agriculture has quickly increased. At a time when the state's old mechanism of planned allocation and planned purchasing and marketing failed to function—when the new mechanism of market regulation had not yet been established—the rural economy encountered many new contradictions and problems. First, the urban and rural economies were divided; and agriculture, industry, and trade were not integrated. Second, unitary family operations did not correspond with large-scale socialized production. Under these circumstances, comrades from many counties bravely implemented reform, and by organizing the county-level agricultural socialized service system, they

enabled agricultural production to extend to pre-production and post-production processing and sales departments. Furthermore, centering around key products and pillar industries, they formed economic interest bodies which integrated agriculture, industry, and commerce and a corresponding management structure. In this way, they seized the crucial point of the question and made it one of the most remarkable and the most wide-ranging aspects in county-level comprehensive reform.

—Carry out management at different layers, continuously create conditions, and confer on counties the right to plan and coordinate economic development and the means of regulating it. In China's administrative system, the county is a basic unit of political power which possesses comprehensive economic management functions. Under the old structure, the county-level government lacked the necessary means of regulating the economy, and the independent economic interests of the county could not be fully represented. Therefore, at the preliminary stage of county-level comprehensive reform, county-level right to economic self-management was expanded by having it assume responsibility for its own finance so that the county government had a definite right and means to "assume overall responsibility for the economy" within that county's scope. Since 1984, a dozen or more provinces throughout the country have made several provisions regarding the delegation of powers to pilot counties that implement comprehensive reform, have expanded their right to economic management and experimentation in independent reform, thus creating a relatively relaxed reform environment. With the ability to regulate the economy at the county level, many pilot counties could proceed with various reforms actively and consciously, thus promoting the development of their local commodity economy.

—Reforming the county-level industrial management system and changing the operating mechanisms of enterprises have brought to life the vitality of enterprises under all types of ownership. Following reform and opening up and the development of the commodity economy, the weaknesses of the original industrial management structure are becoming increasingly obvious. On one hand, the majority of county-level enterprises are low-level, small in scale, heavily laden with tasks, and suffer poor returns. Moreover, they are, like other state-run enterprises, managed too rigidly. On the other hand, the rapid development of township and town enterprises and their flexible mechanisms have brought new challenges to county-level enterprises. The output value of township and town enterprises in 1991 reached 1,100 billion yuan, accounting for 60 percent of the total output value of China's entire rural society. Of this, their industrial output value accounted for one-third of China's total industrial output value; they turned over 43 billion yuan to the state in taxes and arranged for the employment of a total rural work force of 93 million people.

Therefore, in implementing county-level comprehensive reform, it is necessary to attach special importance to the county-level government's guidance for the development of township and town enterprises, carry out effective and indirect regulation and macroscopic management, bring into full play their advantages of being geared to the needs of the market and of having flexible mechanisms. On the other hand, the county-level industrial management structure must be vigorously reformed in such a way that it meets the needs of burgeoning township and town enterprises.

—Vigorously cultivate a market system, activate circulation, enlarge the extent of openness, and vigorously explore new mechanisms that organically integrate planning and the market. Due to historical, geographical, political, and economic factors, compared with the urban economy, the county economy shows that it has comparatively strong small-scale agriculture and a closed economy. In the practice of reform, many localities have come to understand that planning and the market are both means of regulating the economy. Planning must be regulated through the market, and enlarging the scope of market regulation depends more on the market. Therefore, there is no point in developing the commodity economy if we do not develop the market and do not activate circulation. In view of this, many pilot counties have consistently regarded the development and cultivation of the market as an important job in the reform of the circulation area and as an important measure to promote the sustained and steady development of urban and rural economies. "When the market booms, so will all trades and industries." In the course of developing diversified and multi-level special rural markets, conducting matching reforms in the industrial and commercial, pricing, taxation, and foreign trade structures has not only promoted the formation of the market system, but has also promoted the readjustment of the rural industrial structure and has led to the formation of townships and villages that specialize in special trades, thus changing the resource advantage of agricultural products to the commodity advantage.

—Vigorously explore new ways of county-level organization reform with the changing of the functions of government agriculture-related departments as the breakthrough point and in keeping with the internal demands of the development of the commodity economy. Since 1984, some pilot counties have bravely reformed the relations of production and superstructures that do not suit the commodity economy in line with the principle of separating the functions of the party from those of the government, separating the functions of the government from those of the enterprise, simplifying administration, and seeking unity and efficiency. They have made beneficial explorations with regard to county-level organizational reform and have created many reform experiences of "small government and big service." Inner

Mongolia's Chayouqian Prefecture bravely implemented reform, bearing in mind the basic idea of simplifying the upper-level administration, strengthening the basic level, changing their functions, and strengthening service. Zhuozi County's organization reform, which centered on changing functions and strengthening service, began early and had great results. After three readjustments, the number of its government organizations has been reduced from 42 to 14. Moreover, they work together in six offices. Its organ personnel has decreased from over 700 to 300, thus obtaining obvious results. In light of local leading industries, Shanxi's Shi County has restructured its agriculture-related government departments to 10 service centers, which embrace management, operation, and service. In this way, it has found new methods of organizational reform for poverty-afflicted mountainous areas. Shandong's Yi County's organizational reform has gone through the three stages—those of administrative companies, the group of companies, and the headquarters—and has gradually developed 14 government economic supervisory departments—including commercial, grain, and textile departments—into economic entities which operate independently and assume sole responsibility for their profits and losses. Finally, they have been separated from government organizations and from government alignment, and over 300 administrative personnel have been reduced. This new method, which personally changes government management functions and ultimately achieves "small government and many services," has been fully affirmed by leading comrades from the State Council.

—Straighten out relations between the county and the township, transfer powers to townships and towns and put organizations under the township and town levels, improve and perfect the functions of townships and towns, and bring into play the initiative of various administrative levels. As an organ of basic-level political power in China's rural areas, the township or town plays an important role in countywide economic and social development. Therefore, while reforming county-level organizations, Shandong, Liaoning, Jiangsu, Hunan, and other provinces have transferred powers to some counties on a trial basis. In line with the reform idea that "the county, township, and the village attend to their own matters," since 1984, Liaoning's Haicheng City achieved unity of rights, obligations, and functions in countywide economic management. Hunan's Shuangfeng County simplified the administrative structure and transferred powers to townships and towns after its districts had been abolished and merged with the countryside. Liaoning's Dengta County set up "three departments and one treasury," thus strengthening the management of taxation, industry, commerce, and finance. Wuyou Town in the outskirts of Jiangsu's Yancheng City straightened out relations between central and local departments using five different types of organizations. All these experiences can be used as a reference. At

present, nearly 100 counties (county-level cities and districts) in Shandong Province have transferred powers to townships and towns to varying degrees. This practice not only is conducive to changing the functions of county-level organizations and straightening out relations between the county and the township, but also greatly promotes the development of the township and the town's economy and social projects.

For a dozen years or more, county-level comprehensive reform has created many good experiences and has obtained many results. On one hand, county-level reform has offered valuable experiences for the entire country's reform in many areas; for example, Guanghan City has made very great progress in its comprehensive reform. The reform of its systems for grain pricing, purchasing, and sales, which it initiated last year, in particular, offers an experience for grain reform throughout the country. The experiences of some other counties with respect to the housing and enterprise systems, social insurance, market development and cultivation, organization reform, and other areas play a very great demonstrative role in promoting urban and rural reform. On the other hand, county-level reform has also effected a profound change in the urban and rural economic patterns and has promoted the development of the commodity economy. Since reform was initiated, the barriers between urban and rural areas have begun to be removed; the development of small towns has obviously been stepped up; and township and town enterprises have burgeoned across the country. These facts are obvious to everyone. County-level reform has promoted the development of the rural economy, enabling large numbers of poverty-afflicted counties to move on from poverty to wealth. County-level reform has also enhanced the counties' self-developing capacity. In 1986, there were only 42 counties whose revenues reached 100 million yuan. In each of the last few years, a dozen or more such counties have emerged. In 1990, the number of such counties reached 114. At the beginning, counties whose revenues reached 100 million yuan were mainly concentrated in Jiangsu, Zhejiang, and Shanghai. They have now spread into 22 other provinces, municipalities, and autonomous regions. In 1991, China had 2,093 townships and towns whose gross national product exceeded 100 million yuan.

Have a Clear Understanding of the Situation, Seize the Opportunity, and Fully Understand the Need To Step Up the Pace of County-Level Comprehensive Reform

Under the present situation—when the pace of reform and opening up is being stepped up across the country—further enhancing the understanding of the importance of county-level comprehensive reform appears particularly important to deepening reform and stepping up the pace of economic development across the country.

First, the importance of county-level comprehensive reform is determined by the role and characteristics of the county's own political, economic, and social development. The county originated and was promoted in the

ancient dynasties. The county, as an administrative organization and level of administration, has a history of over 2,600 years in China. One can see from this that the county system conforms to China's realities and is a comparatively stable level in China's administrative system. Since China's liberation, the county has still continued to hold a fundamental position in the country's administrative structure and management levels. Of the central, provincial, county, and township levels, the township government is at the most basic level in the organization of political power in China, but its functions are not complete enough. In China, the county-level government is a basic-level government organization with complete functions. All policies of the party and state must be implemented at basic levels through and by the county. Therefore, the county-level government possesses some characteristics that other administrative levels do not. It is both a management, decision-making, and commanding organ for countywide economic and social development, and an organ that implements the various principles and policies of the party and state. It plays an important role in linking up the upper and lower administrative levels, connecting the town and country, and linking up central and local departments, and is a forward command with which the party and state lead rural work. We must see that the county level possesses many special functions: First, it covers a large area. Of China's 1.14-odd billion people, over 900 million live in counties and in townships, towns, and villages under the administration of counties. If county-level reform does not proceed well and if the countywide commodity economy does not develop well, it will be impossible for us to establish economic operating mechanisms that integrate planning and the market or to achieve the strategic goal of economic development. Second, it has an obvious connecting character and is where the urban and rural economies combine. The county is connected to the county at one end and to the city at the other. At a time when urban and rural reform is being deepened continuously, if county-level reform proceeds well, the new systems of the rural and urban areas can be connected. Otherwise, it will be very difficult for urban and rural reform to succeed. Third, it has strong comprehensiveness. It embraces agriculture, industry, commerce, education, the party, the government, the military, and the people. County-level organizations, departments, and functions have corresponding relationships with those of similar organizations at the central, provincial, and city levels. Therefore, county-level comprehensive reform is considerably representative. Fourth, it has definite independence. The practice of reform over the years proves that reform implemented on a trial basis within the scope of a county generally will not incur much risk even if it is pursued too vigorously. Intervention from various central departments decrease relatively; and the province, city, and prefecture can create a more relaxed situation for county-level reform and a micro climate for bold experimentation. Therefore, county-level reform can be tried and pursued boldly to furnish fresh experiences for overall reform at higher levels. Even when some problems occur in the course of

experimentation, it is easier to correct them. This is the importance of county-level comprehensive reform in the general sense.

Second, it is necessary to view the importance of county-level comprehensive reform from the perspective of the international and domestic political and economic situations and the task of deepening reform. At present, profound changes are taking place in the world's political situation and economic order, and the competition in comprehensive national capabilities among various countries is getting more and more acute each day. A backward country is vulnerable to attack. This is the basic lesson that the entire history of modern China has taught us. What we are going to do in the next one or two decades is vital to our country's prospects and destiny. Precisely because of this, Comrade Xiaoping stressed in his important remarks during his southern tour that it is necessary to step up the pace of reform and opening up so that the national economy will move up by one step at several-year intervals. To concentrate our energies on boosting the economy and enhancing our comprehensive national capabilities as quickly as possible, it is essential that we further improve the rural areas' comprehensive productive capacity. China's reform has injected life and vitality into the rural economy, and this is obvious to everyone. Rural reform, however, has not yet reached the desired point but must be deepened continuously. Stagnation and falling backwards in reform means we are doomed to failure. We must realize that, in China, the problem of poverty is still obvious in some areas. Only when we succeed in reform can the strategic goal of changing the people's standard of living from having barely enough food and clothing to leading a comparatively comfortable life, can our backing be stronger and can the socialist cause prosper. The Eighth Plenary Session of the 13th CPC Central Committee put forth such tasks as stabilizing the responsibility systems, for a long time to come, especially the contract responsibility system on a household basis with remuneration linked to output, continuously improve the system of unified management combined with independent management, vigorously develop the socialized service system, and gradually enhance the capability of the collective economy. County-level government, which directly leads agriculture and rural work, is faced with very heavy tasks. On one hand, it is impossible to achieve large-scale development of the rural commodity economy by solely relying on the scattered strength of peasant households. On the other hand, there is a surplus work force of 100 million people in rural areas, and over 3 million people in cities and towns are still out of work. In view of this, it is imperative that tertiary industry be vigorously developed through the readjustment of the industrial structure to enlarge the scope of employment and increase the numbers employed. Therefore, the attention of reform should be focused on matters that the individual peasant household cannot or does not do well, and we must vigorously develop socialized service and activate commodity flows between urban and rural

areas. These tasks demand that the county-level governments change their functions and step up the pace of reform to meet the needs of the new situation of rural development.

Third, judging from the weaknesses of China's current county-level economic management structure, stepping up the pace of county-level reform is a very urgent task. Judging from the overall situation of the 2,100 counties (county-level cities) or more across the country, the old structure, which mainly uses administrative means for management, has not been changed thoroughly, seriously hindering the development of the urban and rural commodity economy. For example, management is out of keeping with service: People say "management is service," but this is not true. Some people say satirically: "Management is holding meetings, and service is charging fees." Because the functions of the government have not been separated from those of the enterprise, their functions are not defined, and there are barriers between higher and lower levels and between different departments, we are in a situation of bureaucracy and very low administrative efficiency. The expansion of county-level organizations and the fact that they are overstaffed have greatly exceeded their financial capacity. At present, of the 2,100 or more counties in China, approximately 55 percent rely on financial subsidies. There are many reasons for this, the main one being that the commodity economy of some areas is undeveloped, coupled with the fact that, in recent years, county-level organizations have kept expanding, and the number of administrative personnel has exceeded the planned size. In 1990, county-level organizations throughout the country had 230,000 excess personnel, the financial burden was exceedingly great, and the growth rates of the administrative expenditures of some counties exceeded those of their financial incomes. This trend is continuously expanding now. Is it acceptable to not implement reform, given such a heavy financial burden and such low work efficiency?

Fourth, judging from the need for enterprises to change their operating mechanisms and to be geared to the needs of the market, it is also necessary to step up the reform of county-level organizations. Otherwise, with so much departmental and administrative intervention and having to ask for instructions from senior departments and follow their commands in everything, how can enterprises change their operating mechanisms and how can they gear themselves to the needs of the market? The change of the operating mechanisms of enterprises must be made in coordination with the change of the functions with which the government manages the economy, and only by ensuring this can we really gear enterprises to the needs of the market. Otherwise, the effort will end up as empty talk.

Judging from the four aspects mentioned above, it is not only necessary to step up county-level comprehensive reform but is also possible to do so. We now have many favorable conditions for stepping up county-level reform. Comrade Xiaoping's important remarks are a

powerful ideological weapon for us in stepping up the pace of reform. Moreover, there are the Decisions of the Eighth Plenary Session of the 13th CPC Central Committee and many other correct policies and decisions. We have a comparatively relaxed economic and social environment. In particular, we have the effective experiences in all aspects created by various localities in the last dozen years or more. Some localities have produced new embryonic structures, they have integrated planning and the market organically, and they play a demonstrative role. We should say that the time is ripe for us to step up county-level comprehensive reform. Opportunity knocks but once. We must seize this favorable opportunity firmly to step up the pace of county-level reform.

Emancipate the Mind, Strengthen Leadership, and Promote the Further Development of County-Level Comprehensive Reform

Under the leadership of the party committees and governments of various provinces, municipalities, and autonomous regions, county-level comprehensive reform is one that aims to develop the urban and rural commodity economy, achieve the integration of urban and rural areas, and establish economic operating mechanisms that combine planning and the market, and one that emphasizes reforming the county-level economic management system. County-level comprehensive reform has a rich content, and its characteristics are quite outstanding. It is necessary to ensure the integration of rural reform and urban reform, the integration of the economic structure and the political structure, the integration of reform, development, and opening up, and the integration of macroscopic regulation and microscopic activation of the economy. Through reform, we should gradually establish a new socialist commodity economic structure and the planning-and-market-integrated economic operating mechanisms that correspond to it. Therefore, we should pay good attention to the following tasks in future reform:

First, it is necessary to further emancipate the mind and strengthen the reform concept. Under the current situation, generally speaking, nobody opposes reform. But, as reform continues to deepen, it will encounter various forms of resistance and interference. Therefore, whether a county can make breakthroughs in one or several elements of reform depends largely on whether the minds of the cadres there have been emancipated, whether they are bold and determined, and whether they consider reform important. In county-level comprehensive reform, some localities boldly maintain that all policies useful for eliminating poverty and becoming wealthy should be adopted, that all methods good for increasing economic returns should be tried, and all measures good for mobilizing the initiative of the masses should be adopted. This is in keeping with the spirit of Comrade Xiaoping's remarks and fully embodies the determination of the comrades there to make bold experiments. I think that, in analyzing and studying some "hot" questions regarding county-level reform, we should adopt this attitude and must not bind our hands.

Second, insist on proceeding from the actual circumstances in everything, consider them in the study of the development strategy of the county concerned, and choose the right method and focus of reform that conform to its characteristics. China is vast in territory and has a large population. Different places throughout the country have greatly different economic foundations, and the process of commodity economic development and structural reform is very imbalanced. Therefore, it is necessary to first correctly understand and analyze the strengths and weaknesses of the locality concerned, and, in keeping with the objective demand of the development of commodity economy, choose the proper reform method and focus that conform to its characteristics, bring into full play its own advantages, and open to the outside and inside to supplement advantages and accelerate the development of the commodity economy. We can say that one basic lesson of county-level comprehensive reform is to uphold the principle of "basing everything on the conditions of the county concerned, make developments in light of them, make major breakthroughs, and bring out its own characteristics" in planning proposals for reform. We must take this into full consideration when we extensively promote reform elsewhere. In doing its work, a province must also heed the guidance of each county and must not be satisfied with a "commonly used" document.

Third, vigorously cultivate and develop the market system and make the establishment of new mechanisms that integrate planning and the marketplace the goal of reform. How can planning and the market be integrated at the county level? What role does the county play in the establishment of the planned commodity economic structure? On one hand, it is necessary to grant the county "the necessary right to plan economic development as a whole, coordinate relations between departments, and promote the establishment of the county government's powers to regulate the economy. On the other hand, we should also ensure that economic activities below the county level are basically geared to the needs of the market. Given the weak economic organizational strength and the imperfect growth of market organizations, in order to develop the commodity economy quickly and on a large scale, the county government must vigorously lead economic organizations and market organizations to blaze new trails. At present, it is necessary to attach special importance to the development of the urban and rural market system. The market is a forum for commodity exchange, and market mechanisms are a very effective type of economic operating mechanisms. The establishment of market mechanisms and the enlargement of the scope of market regulation will bring life and vitality to the economy. In addition to formulating market regulations, maintaining market order, and creating a good market environment, the county government should also make great efforts to help enterprises and strengthen the degree of their organization during their entry to the market. The question as to how the county will organically integrate planning

and the market is still a new one and needs the further exploration and creation of all localities.

Fourth, vigorously proceed with the experimentation of county-level organizational reform and strengthen the development of the county-level agricultural socialized service system along with the transformation of their functions. During his inspection tour of Shandong last November, Premier Li Peng pointed out: Political structure reform must match economic structure reform. One important point in political structure reform is the reform of government organizations at all levels, and its goal is to change their functions and improve their efficiency. At present, county-level organizations are generally very large, their heavy financial expenditures are generally for 3,000 to 4,000 persons, and their work efficiency is low. This phenomenon must be changed. At the meeting, Premier Li Peng emphatically mentioned this issue, and, therefore, we should vigorously implement it. How should we start implementing it? This needs to be explored in the course of practice. Judging from the trial experiences of some localities, economic and technological development departments—especially departments related to agriculture—of governments at the county and township levels are gradually separating themselves from the government and are offering socialized services to rural areas in varied forms. They are gradually changing from administrative organizations into economic entities and are gradually becoming self-sufficient and reducing their financial burdens. They will finally change into enterprises so that they can become "small governments with big service." This is probably a direction for county-level government organization reform. We should point out that county-level comprehensive reform embraces many fields, and the breakthrough points are optional. However, various reforms will ultimately concern to varying degrees the question of organization reform. Moreover, it is completely possible for the reform of county-level organizations to start first and for them to bravely conduct experiments and use different methods. After they have gained experiences, they must insist on spreading them and must conscientiously proceed with the trial reform of county-level organizations in terms of depth and breadth.

Fifth, county-level comprehensive reform must have both clear focal points and overall matching reform measures. The county connects town and country. As far as the importance of developing the economy, the major task of reform—or, rather, the central link in reform—is still to hold fast to rural reform; and while stabilizing and perfecting rural policy, which is based on the contract responsibility system on a household basis with remuneration linked to output, it is necessary to make great efforts to develop the system of unified management combined with independent management and the socialized service system and work hard to boost agriculture. To match this, in order to become wealthy as soon as possible, it is necessary to vigorously develop township and town enterprises and tertiary industry. This is the main source of financial wealth. It is necessary to

increase the extent of reform of the circulation system, establish a unified socialist market, oppose barriers and blockades, and improve the reform of county-level macroscopic regulation.

Sixth, leaders at all levels and all departments must care for and support county-level comprehensive reform. They must conscientiously strengthen the leadership of this reform. In strengthening leadership, it is necessary first to continue to pay good attention to experiments, integrate particular experiments with their promotion and give specific guidance so that pilot counties can direct the path of reform. Provinces that have pilot counties should strengthen their specific guidance, while those that have not set up pilot counties should consider setting them up promptly. For some questions that they cannot decide definitively, they can experiment with them in pilot counties. For experiments that require special conditions, we should create the necessary conditions for pilot counties adjustments according to the experimented items. Second, we should ask relevant departments to jointly care for and support county-level comprehensive reform and create a better external environment for this reform. Some rights that can be transferred to pilot countries should be transferred to them where possible. Planning, financial, banking, industrial, commercial, commodity price, foreign trade, and labor departments and other departments can conduct various reform experiments in pilot counties and improve county-level reform together. Third, it is necessary to strengthen the propagation and guidance of news and public opinion so as to strive for the attention and support of society as a whole.

Comrade Xiaoping called on us to "bravely try and work at what we have decided on" and to "do more practical things and make less empty talk." This is also the demand for us to implement county-level comprehensive reform. Therefore, we must vigorously support the exploration of county-level reform and sum up and spread successful experiences. We must help with summing up experiences and lessons when problems have cropped up so that county-level leaders will be free from anxiety and will have more confidence in reform. Compared with the past few years, the depth and difficulty in county-level comprehensive reform have increased considerably, and its has developed a much closer relationship with the entire reform of the economic structure and political structure. The contradiction and conflict arising from the coexistence of the new and old structures have also been greatly accelerated. The question of how to develop the commodity economy of the 1990's demands that county-level leaders have a broader field of vision, a more thorough political, economic, technological, and social understanding, and that they must also use external experiences, stick to enlarging openness to the outside world as well as inside in order to meet the need of reform and development. Under the new circumstances and on the basis of the abundance of previous experiences of reform, only when we bravely put them into practice and continuously sum up experiences can

we definitely usher in a new situation for county-level comprehensive reform and make new achievements.

Journal on Steel Industry Contract System

*HK0210080092 Beijing JINGJI GUANLI in Chinese
No 6, 5 Jun 92 pp 29-36, 41*

[Article by He Chibing (6320 6375 0365), edited by An Luming (1344 6424 2494): "A Review of and Thoughts on the Contract System in Iron and Steel Industrial Enterprises"]

[Text] Since 1987, the whole-people owned medium and large iron and steel enterprises have widely implemented the contracted operation responsibility system, and in accordance with the principle of "a guaranteed base figure, a guaranteed amount to be handed up, greater retention of amounts in excess of the base figure, and self-subsidizing of deficiencies," the distribution relationship between enterprises and the state has been fixed. This has played a positive role in implementing enterprise autonomy, changing operational mechanisms, and increasing enterprise vigor. However, following the deepening of economic structural reform, and in particular following the dramatic changes in the external environment of enterprises in recent years, quite a number of enterprises have found it difficult to continue with the contract schemes, it has been difficult to fix the new round of contract plans, and the contract system is facing stern tests. The present situation requires us to engage in a summation and review of the enterprise contract system, and in accordance with Comrade Deng Xiaoping's most recent speeches and the spirit of the meeting of the Central Committee Political Bureau, grasp the beneficial situation, accelerate the pace of reform, actively explore a new distribution relationship between the state and enterprises, perfect the enterprise operational system, and point out the road for enlivening medium and large iron and steel enterprises.

I. Main Characteristics of Iron and Steel Industry's Enterprise Contract System

During the Seventh Five-Year Plan, the iron and steel industry's contract system was implemented on two levels. The Ministry of Metallurgical Industry implemented an overall industrial contract with the state in respect of production and construction by key iron and steel enterprises. Also, the iron and steel enterprises, in accordance with their jurisdictional relationships, engaged in enterprise contracts with governments or managing departments at various levels. The enterprise contracts generally guarantee the handing up of a certain amount of profits, the unified distribution of steel products, and technical transformation tasks. The enterprises also implement a linkage between total wages and economic performance.

The iron and steel industry's overall industry contract and the individual enterprise contracts have the following characteristics:

1. Technical transformation tasks, or enterprise development, are made a major contract target. In general, the contracts are combined with enterprise development plans and linked with the targets during the tenure of the enterprise director. The funds needed for the technical transformation carried out by the enterprise are no longer supplied by the state. The funds come from credit, or are raised by the enterprise itself, and the enterprise has to concern itself with repaying both the principal and interest of domestic and foreign loans. This pushes the enterprises onto the track of deciding their own operations and being responsible for their own development. The enterprise becomes the investment subject and takes on the risks of contracted operation. Thereby, the old structure where the enterprises ate from the "big pot" of the state has begun to break down.

2. They have, as a precondition, guaranteeing the stable growth of state financial income. The profits which an enterprise contracts to hand up are, in general, not lower than the actual profits handed up (that is, income tax and regulatory tax) in the previous year and the amount increases annually. Tax is handed up in accordance with the product tax readjustment after the second step of the process by which tax payment is replacing profit delivery (the tax rate was raised from 8 percent to 14 percent). According to statistics, in the first four years of the Seventh Five-Year Plan, the amount of profits and taxes handed up rose from 8.93 billion yuan in 1985 to 13.98 billion yuan in 1989, an increase of 56.6 percent. In 1990, although the profits in iron and steel enterprises dropped from 10.2 billion yuan in the previous year to 6.7 billion yuan, a drop of 34 percent, and some enterprises fell behind in the contracted profits payments, tax payments still rose by 5.7 percent over the previous year. At the same time, the enterprises still paid the two funds, comprising 25 percent of the enterprises' retained profits and depreciation funds.

3. They take into consideration the characteristic of iron and steel enterprises whereby their technical transformation tasks are heavy and require a large amount of funds. Thus, the central and local governments have adopted some quite relaxed support policies for iron and steel enterprises. For example, in the contract for Capital Iron and Steelworks, the state provided preferential conditions whereby the enterprise could sell 15 percent of its steel products within the plan at market prices and yet the state only implemented the 8 percent unified industrial and commercial tax rate. This created conditions for the technical transformation of Capital Iron and Steelworks and for the development of the enterprise. Together with this, Capital Iron and Steelworks put in great efforts to speed the pace of technological transformation, production capacity was gradually expanded, and steel output volume grew from 1.6 million tonnes (including the city output merged into the enterprise) in 1981 to 4.35 million tonnes in 1990, economic results improved greatly and enterprise vigor was gradually strengthened. Of the local backbone iron and steel enterprises, seven have a production capacity in excess of

500,000 tonnes. Of these seven, the Handan Iron and Steelworks, the Anyang Iron and Steelworks, and the Jinan Iron and Steelworks produce over 1 million tonnes of steel. These have also been provided with various support policies by the local governments and have seen development subsequent to the implementation of the contracts.

4. The contract periods for many iron and steel enterprises is quite long. According to statistics from 103 medium and large enterprises which entered into contracts, 12 contracts were for three years, 68 were for four-five years and 23 were for eight-10 years. This is beneficial in allowing enterprises to make overall plans for production, for technical transformation, and for the welfare of the staff and workers. It is also beneficial in having enterprises establish self-restraint mechanisms and guarding against short-term activities.

5. The contracts of key iron and steel enterprises are combined with industrial input-output contracts to guarantee the completion of state mandatory plans and tasks in terms of handing up steel products for unified distribution. After the Ministry of Metallurgical Industry and the state enter an input-output contract, the state planning tasks for each year are assigned to the various iron and steel enterprises. In this way, the iron and steel enterprises know the state plans they will be assuming for the next five years. This facilitates planning and making overall arrangements and promotes the production of iron and steel. In 1990, steel output reached 66.35 million tonnes, a net increase of 22.87 million tonnes over the 43.48 million tonnes in 1984, prior to the introduction of contracts. This represents an annual average increase of 3.81 million tonnes. The volume of steel products handed up to the state for planned distribution saw a year-on-year growth, with the 19.80 million tonnes of 1984 growing to 25.30 million tonnes in 1990, and each year the state's unified distribution tasks were completed. There was also improvement in product structure, with the plate and pipe ratio being raised during the Seventh Five-Year Plan from 34.3 percent to 36.8 percent. Product quality has also improved, with the "dual standard rate" being raised from 7.5 percent to 45 percent. Consumption has decreased, with the amount of standard coal consumed per tonne of steel produced reducing from 1.75 to 1.62 tonnes. Key enterprises have even reduced their consumption to 1.2 tonnes of standard coal. Throughout the whole system, 7 million tonnes of coal has been saved. During the Seventh Five-Year Plan, steel production grew by 43.6 percent, while consumption grew only 27 percent.

II. Major Problems in Contract System

The contracted responsibility system implemented in whole-people ownership industrial enterprises is an important reform measure in the initial stage of our country's economic structural reform and is a beneficial exploratory step in handling the responsibilities, rights,

and interests relationships between the state and enterprises and in changing the enterprise operational mechanism. Practice has proved that the contract system is a very great advance over the traditional system implemented in the past, which had highly centralized planning, unified supply and purchase, and unified revenue and expenditure. In the early period of reform, especially in the period when there was a "double-track system" in planning and pricing, the contract system has played an important role in expanding the autonomy of enterprises, motivating the enthusiasm of enterprises, and promoting the development of the iron and steel industry. However, following the continued deepening of our country's economic structural reform, as the various old structures have been gradually replaced by new structures, and particularly at times when reform develops to deep levels and readjusts and changes the interests situation of the various sides, the contract system has begun to become unsuited to the reform situation. Its innate drawbacks have become increasingly apparent and have obstructed the deepening and development of reform. The main problems which exist in the iron and steel enterprise contracts are:

1. They do not resolve the problem of a mechanism by which enterprises can react to changes. As the contradiction between fixed base figures and ever-changing external conditions becomes increasingly apparent, enterprise economic performance declines, retained profits are reduced, many enterprises cannot complete the tasks they have been assigned, and it is difficult for enterprises to continue the contracts.

The basic principles of the contract system are "a guaranteed base figure, a guaranteed amount to be handed up, greater retention of amounts in excess of the base figure, and self-subsidizing of deficiencies." The results of practice have shown that these basic principles are very difficult to implement in a situation where external conditions are seeing great changes.

During the period of the Sixth Five-Year Plan, the contract base figures were fixed in a situation where the external environment was quite stable and projected enterprise economic results were quite optimistic. At that time, the prices of the raw materials, fuel, transport, and electricity needed by the iron and steel enterprises were quite low and the fluctuations were not great. It was thus basically possible to guarantee the prices. Steel products were also in great demand and the profit rates were quite high. Not only were profits for every tonne of excess production in the steel products market close to 1,000 yuan but enterprises also made quite a profit on the low-price steel products which were subject to unified distribution by the state. Thus, the enthusiasm of the enterprises for the contracts was very high. In the first two years after implementation of the contracts there was a great increase in profits and enterprises' retained profits also grew annually. However, by the latter part of the Seventh Five-Year Plan, the reforms had been further deepened and the interests of the various sides had been readjusted. Some new reform

measures had also been put forward, resulting in the benefits derived by the iron and steel industry shifting to upstream products and also to the financial administration and banks. Enterprise economic interests saw an overall slippage and the iron and steel contract system was subject to serious pummeling. According to statistics, in the first three years of the Seventh Five-Year Plan, the realized profits and gross retained profits of enterprises saw a year-by-year increase. In 1988, the realized profits grew 16.1 percent over the previous year, while gross retained profits grew 21.4 percent. However, in 1989 and 1990, the realized profits of iron and steel enterprises and enterprise retained profits saw an annual decline throughout the country. Profits declined from 10.55 billion yuan in 1988 to 6.654 billion yuan in 1990, while enterprise retained profits fell from 5.21 billion yuan in 1988 to 3.26 billion yuan in 1990. Loss-making enterprises rose from 48 in 1985 to 235 in 1990 and the amount of losses rose from 18 million yuan in 1985 to 1.126 billion yuan in 1990.

The changes in external environment and conditions have also had a very marked effect on the enterprises, which had superiorities in terms of contract conditions. Some enterprises which have contracted for quite low amounts of taxes and profits, or have low base figures, have seen only small growth in their interests and some have experienced losses. Capital Iron and Steelworks enjoys preferential policy conditions. It saw an annual increase in profits during the first four years of the Seventh Five-Year Plan, with an 18.94 percent rise in 1989. However, in 1990, the growth in realized profits had fallen to 3.24 percent. If Capital Iron and Steelworks did not enjoy preferential policies, the 1990 realized profits may even have declined.

Because the basic amount of profits to be handed up is fixed in the contract, the reduction in realized profits also affected the ability of the enterprises to complete contract tasks. Some enterprises have not only failed to pay contracted profit amounts but have also failed to pay taxes.

2. The problem of enterprise development mechanisms has not been basically resolved. The contract method as presently stipulated by the state, as seen from the implementation of the Seventh Five-Year Plan, appears to have as its main precondition the guaranteeing of increased income for state finances and for staff and workers. Meanwhile, there are no fund guarantees for the technical transformation goals noted in the contracts. This has given rise to the situation referred to as "hard at both ends but soft in the middle."

At present, in respect of the fixed assets for the iron and steel industry, the state has implemented a system where state investment has been changed to credit and repayment of credit before tax has been changed to repayment of credit after tax. Enterprises have become the investment subjects and have taken on the responsibilities and risks of fixed asset investment. However, there are no post-investment compensatory measures for enterprises

and liabilities must all be shouldered by the enterprises. Thus, enterprises find it hard to realize self-accumulation and self-development goals. During the Seventh Five-Year Plan, the fixed assets investment of iron and steel enterprises throughout the country was 65.8 billion yuan. The original value of fixed assets thus increased from 62.8 billion yuan to 113.1 billion yuan and steel production capacity rose from 50.57 million tonnes to 71.20 million tonnes. However, total retained profits by the enterprises were only 21.7 billion yuan. Deducting the rigid expenditure, such as the "two funds," welfare funds, bonus funds, and supplementary circulating funds, there was not much left to use for construction. Thus, in respect of the enterprise contracts of the iron and steel industry during the Seventh Five-Year Plan, although some local governments adopted some preferential policies, because of the huge investment needed by the iron and steel enterprises and the very tight situation of enterprise funds, most of the funds were raised through credit obtained by the enterprise and "selling young sprouts." By 1990, the total value of capital construction and technical transformation liabilities for the entire industry was 28 billion yuan, requiring repayment during the Eighth and Ninth Five-Year Plans of principal and interest totaling 35 billion yuan. In 1990, the profit rate on sales for the whole industry was only 6.07 percent, while the credit interest rate was generally above 10 percent. With the profit rate being below the credit interest rate, quite a number of enterprises find it very difficult to repay debts. According to statistics relating to the debt situation in 28 key enterprises, the volume of debt is already equivalent to 34 percent of the original value of fixed assets and in some cases enterprise debts already approach or even exceed the original value of the fixed assets of the enterprise.

3. They are not beneficial to the establishment of a macroeconomic regulatory and control mechanism. Since implementing the contracts, the autonomy of enterprises has been further expanded and the fixed asset investment subject switches from the state to the enterprise. The enthusiasm of enterprises for self-transformation and development is thus mobilized but this brings the problem of investment dispersal and the problem of regulatory and control capacity and is not beneficial to macroeconomic management: 1) Investment dispersal means that it is difficult for construction funds to be collected together by medium and large enterprises, which is not of benefit to the optimization and rational deployment of production factors. The current enterprise contract system and local financial contract system has meant that there are many avenues for funds sourcing and a diversification of investment subjects. Thus, many regions and enterprises have not grasped the strategic focuses of the overall industry. Rather, construction investment has often been directed to where it benefits the interests of that region or that enterprise. Thus, the investment cannot be arranged in accordance with macroeconomic needs or industrial policies and this has led to the situation whereby enterprises are "large and complete" or "small but complete,"

there is duplicate construction, and on top of the existing situation where assets are irrationally deployed, newly-added assets are being irrationally distributed. 2) Investment dispersal is not beneficial to forming a rational economic scale in the iron and steel industry and reduces overall results. Experience both at home and abroad shows that a rational economic scale of iron and steel enterprises should be a comprehensive capacity of 3 to 5 million tonnes of iron and steel. At present, in our country there are only four enterprises on this scale—Anyang Iron and Steelworks, Baoshan Iron and Steelworks, Wuhan Iron and Steelworks, and Capital Iron and Steelworks. In 1990, the steel output volume of these four enterprises constituted 31 percent of the national total and the profits and taxes they paid constituted 44.3 percent of the whole industry, with profits and taxes of 373.21 yuan being paid per tonne of steel. The more than 1,000 other iron and steel enterprises which have not reached a rational economic scale have, through their contracts, used preferential policies by the various local governments to take up close to 70 percent of the entire industry's investment. However, the profits and taxes they pay are only 212 yuan per tonne, or 43 percent lower than the figure for the four major enterprises. 3) Investment dispersal results in those enterprises which should be developed not having the money, while those which should not be developed enjoy preferential policies and see blind development, leading to an imbalance in the industrial process of the iron and steel industry. The development of mines is seriously stagnant, while the development of enterprises engaged in smelting and rolling is too swift, which affects overall results. Over the last 10 years, investment in mines has become increasingly small, and during the Sixth and Seventh Five-Year Plans, the investment in mining as a proportion of total investment in the iron and steel industry fell to 4.9 percent and 2.1 percent respectively, from the figures during the Fourth and Fifth Five-Year Plan of 22 and 13 percent respectively.

4. The new round of contracts are experiencing great difficulties. There is a great degree of artificiality and arbitrariness in the contract methods and they have not yet come onto the normal track of rule by law, whereby they accord with state industrial policies. Since 1989, the iron and steel enterprises have been involved in discussions with governments at various levels on the new round of contracts. Over the last two years there has been a widespread major slippage in the economic results of industrial enterprises and the central and local financial departments, as well as enterprises, have all been in great difficulties. In such a situation, the government wants the enterprises to raise the contract base figure in order to guarantee the state's financial revenue increases, while the enterprises want the government to reduce taxes and allow more profit retention, so that they can guarantee the basic conditions for production and construction. The requirements of both sides are rational and reasonable. Thus, the negotiations and haggling over contracts, with each side clinging to its own demands, means that the plans for the new round of contracts are difficult to

fix. It has already changed from the past situation, where enterprises wanted to sign contracts, to the current situation where the governments want the enterprises to sign the contracts. Even for enterprises which have signed contracts, some contract policies may not be sustained or stable. For example, local governments, in order to support the development of the iron and steel industry, agreed that enterprises could pay a contracted amount in circulation tax but the State Council has, through repeated instructions, changed this policy. The current contract system, where there is a different system for each enterprises and where there has to be haggling to negotiate the contracts, is very artificial and arbitrary. It greatly lacks in standardization and the effectiveness in fixing contract plans is very low and neither scientific nor rational. Such a system is very unsuited to the demands of the new economic operational mechanism in which there is separation between government and enterprise functions and between ownership and operational rights.

In addition, seen from the orientation of reform, because the current contract system implements a single contract for handing up profits, it confuses state administrative income (income tax on profits) and income from whole-people assets (asset dividends). This creates obstacles to the realization of the separation of the dual functions and two rights of the state and is also not beneficial to having the financial administration carry out reforms to introduce a divided tax system and double-entry budgets.

III. Major Causes of Problems in Iron and Steel Industry's Enterprise Contract System

The problems which have appeared in the iron and steel industry's enterprise contract system have multiple causes. The problems which involve the enterprises themselves include problems such as the effects of management by the managing departments being inappropriate, and unavoidable problems in the transition from the old system to the new. I believe that a more important problem is that at present our country's economic structural reforms are not coordinated, planned reform measures are not put into place, and enterprises have not yet formed an overall operational mechanism which can bring them into a beneficial cycle. In particular, the enterprises have not yet formed healthy and complete enterprise development mechanisms and macroeconomic regulatory and control mechanisms. In summary, the major causes are as follows:

1. The distribution relationship between enterprises and the state has not yet been put in good order.

The current contract system does not treat different types of enterprises differently in accordance with state industrial policies. Rather, it adopts the method of "cutting with one knife." The principle used to fix contracted base figures in 1987 was the amount of income tax and regulatory tax actually handed over in the previous year and then the contract fixed gradually

increasing amounts to be handed up subsequently. This unified method, as far as the iron and steel industry with its heavy technical transformation tasks and great investment requirements was concerned, resulted in a situation where enterprises were unable to develop. If we take the Anyang Iron and Steelworks as an example, the contracted amount of profits to be handed up had 55 percent in income tax and 14 percent in regulatory tax as the base figures, with gradually increasing amounts to be handed up subsequently. Thus, the profit base figure to be handed up was 60.8 percent of realized profits. Such a contracted base figure to be handed up was, for an enterprise like Anyang Iron and Steelworks with its heavy technical transformation tasks, clearly difficult to bear. During the Seventh Five-Year Plan period, Anyang Iron and Steelworks' gross retention of profits totalled 1.652 billion yuan. After deducting the "two funds," welfare costs and bonus funds, as well as the supplementary production circulating funds, the enterprise hardly had any funds left for technological transformation and had to rely on credit to engage in construction. During the Seventh Five-Year Plan, Anyang Iron and Steelworks, in accordance with the technological transformation tasks approved by the state, invested a total of 7.387 billion yuan. Fixed assets of 5.5 billion yuan in value were added and the fixed assets value was thus raised from 7.46 to 13.0 billion yuan. It should be noted that Anyang Iron and Steelworks makes a great contribution to the state. However, as the technological transformation mainly relies on credit, together with the effects of readjustment of prices for raw materials and fuel and the effects of newly-increased tax types and exchange rates, Anyang Iron and Steelworks has seen a decline in income of over 2 billion yuan. This has in turn led to Anyang Iron and Steelworks failing to hand up to the state taxes and profits of 1.527 billion yuan and having to take on a technical transformation debt of 2.83 billion yuan.

2. In the state budget, the relationship between "sustenance" and construction has not been put in good order.

The current financial policies have sustenance as their main part and budget funds for construction are not made available. The circulation tax, income tax (including contracted profits), and the "two funds" are collected together in a sustaining financial budget. The key state construction and enterprise technological transformation projects must all depend on credit or self-raised funds. There is no stable source of construction funds and enterprise development relies on going into debt to fund construction. In respect of the reform of the fixed asset investment system, the state has adopted two major reform measures. The first is that fixed asset investment has been changed from state allocation to credit. The second is that after enterprises implemented contracts, there was a change from "repayment of credit prior to taxation" to "repayment of credit after taxation" for capital construction and technical transformation investment credit. This pushed enterprises into the position of investment subjects. However, as the reforms have not been well coordinated, the enterprises did not

form a development mechanism. The present contract system purely stipulates that enterprises will shoulder the responsibilities of investment and requires them, in their contracts, to agree to increase state-owned assets. However, this does not provide corresponding post-investment compensatory measures for the enterprises and credit has to be repaid by enterprises, after they have paid taxes, by raising their own funds. In the current situation where enterprise retained profits have been gradually declining and depreciation rates are low, the enterprises have no capacity to repay the loans.

3. The relationship between maintaining simple reproduction and expanding reproduction has not been put in good order.

At present, there widely exists the situation where fixed assets depreciation rates are too low and few funds are retained for major overhauls or as funds for maintenance of simple reproduction in mines. Thus the situation where, in respect of fixed assets, enterprises are "eating their fixed capital" is extremely serious. The basic depreciation rate for the iron and steel industry in 1990 was 4.56 percent (the amount of funds was 3.92 billion yuan), and the retention rate for major overhaul funds was 2.98 percent (the amount of funds was 2.8 billion yuan). This low retention rate is very much out of accord with the present situation of the high-speed development of science and technology. Despite this low rate, because of the linkage between total wage volumes and economic results, some enterprises do not deduct, or only partially deduct, the due depreciation funds and major overall funds, while they completely fail to deduct the funds to be used for maintaining the simple reproduction of mines. This produces a false increase in profits. Added to this is the fact that they hand up the "two funds" from the depreciation funds. Thus, the funds which should have been used in maintaining simple reproduction and renewing and transforming technology are diverted and used as payments to the financial administration or given out as bonuses. Some are even used in capital construction. This is a problem of policy guidance. If this continues for a long period, the enterprises' production capacity will gradually shrink and the enterprises' development reserves will be affected.

4. The relationship between microeconomic enlivening and macroeconomic regulation and control has not been put in good order.

Resolving the problem of medium and large enterprises having insufficient vigor is still a major task in the current deepening of enterprise reform. Over the last few years, the iron and steel industry, while stressing the "strengthening of enterprise vigor" and "enterprise self-development," has not concurrently kept pace in terms of macroeconomic regulation and control, planned development, establishing restraining mechanisms, and so on. Thus a lack of control over fixed asset investment has occurred. The major reasons giving rise to this problem have been structural problems. At present, there are three systems which directly affect macroeconomic

regulation and control: 1) The system implemented in the majority of enterprises where there is dual leadership by both the center and the localities, but where the locality is the major leader; 2) the financial contract system implemented by the localities; and 3) the investment management system where the localities have quite major project examination and approval powers. Although these systems can mobilize the enthusiasm of the localities to develop the iron and steel industry, because the localities and enterprises find it difficult to grasp the strategic focuses in the development of the overall industry and consider things from the angle of their own interests, when fixed asset investments are made, it often occurs that projects which are not completely in accord with the strategic focuses of the industry, or which are duplicate constructions, are funded. During the Seventh Five-Year Plan, many iron and steel enterprise projects involved the locality providing the site, the funds, and also providing policy assistance. The result was that the use of funds was dispersed and there were no funds for that which should have been developed, while that which should not have been developed was blindly developed and there was duplicate construction.

5. A large amount of benefits from the iron and steel industry have been transferred outside.

First, the current tax burden exceeds the capacity of the enterprises to bear. In 1984, after the state implemented the second step of the change from profit delivery to taxation payment, the circulation tax rate on steel products (mainly product tax and added value tax) was readjusted from 8 percent up to 14 percent. Added to this were the education surcharge, land tax, and transport tax which were entered into costs, resulting in the circulation tax rate which was actually paid on the basis of sales income reaching 15.4 percent, about double the rate prior to the second step of changing profit delivery to tax payment. This is a quite high tax rate as compared with the various other industries and has resulted in the benefits of iron and steel enterprises being shifted over, to a great degree, to pay taxes. In recent years, the prices of upstream products used by the iron and steel industry (such as coal, electricity, and oil) and transport have been raised by a great margin. This has also meant that the benefits of the iron and steel industry have been shifted to other departments. Added to this is the problem of "triangular debt" and the increase in bank credit interest rates. This has resulted in benefits from the iron and steel enterprises being shifted to the banks. The effects of these factors has been that the costs of the iron and steel industry have risen across the board and profits have declined. In 1990, costs increased by 12.92 percent and profits declined by 34 percent. This produced a serious landslide in benefits. If we compare 1990 with 1984, the profit margin on sales in the iron and steel industry fell from 18.91 percent to 6.12 percent, a decline of 12.8 percentage points. The profits to tax ratio changed from 2.51:1 to 0.38:1. That is, it changed from a situation where profits were greater than tax payments

to where the latter exceeded the former. The iron and steel industry is no longer the big profit maker in the national economy. If the tax burden of the iron and steel industry is not readjusted, then the industry will not be able to make any profit and this will inevitably affect the production enthusiasm of enterprises and restrict the development of the iron and steel industry.

6. The autonomy given in the "Enterprise Law" has not been truly implemented and the situation where enterprise operational mechanisms are imperfect, management is backward, and quality is low, essentially, has not been changed: 1) The position and authority of the "Enterprise Law" has not yet been established, and there is no unified understanding of it between upper and lower levels, resulting in enterprises having nothing to conform to or observe. The state also fails to provide supervision or inspection in respect of implementation of the "Enterprise Law" and interferes excessively in all aspects of enterprise operations. 2) With implementation of the factory director (manager) responsibility system some rocking has appeared in enterprises. The vying over who is the "center" and the "core" of the enterprise affects the enthusiasm of the factory director (manager), and in a small number of enterprises, the relationship between the party, the administration, and the workers is not properly coordinated. 3) The relationship between reform and stability and management and stability is not handled well. There is excessive stress on stability which widely results in halting reform and relaxing management, "contracts replace management," "contracts replace reform," and the egalitarianism trend again raises its head. 4) Production and operational decisionmaking is inappropriate. There is much input and little output, some products are stockpiled, quality is declining, consumption is increasing, costs are rising, and results are declining. Technological transformation is not being carried out in accordance with capacities, construction periods are long, the projects are slow coming on stream, and this has led to investment results being poor. 5) Some enterprises do not have a strong leadership or management consciousness, there is lax management within the enterprise, and they do not put sufficient effort into basic management work.

IV. Line of Thinking and Countermeasures in Enlivening Medium and Large Iron and Steel Enterprises

In enlivening medium and large enterprises, it is necessary to improve their external environments, and on the other hand, it is necessary to improve the operational mechanisms of the enterprises themselves. The party Central Committee and the State Council recently adopted 20 policy measures for improving the external environment of enterprises and for changing the enterprise operational mechanisms. The implementation of these policy measures will be of benefit in resolving existing problems in the enterprise contracts of the iron and steel industry. At the same time, we must recognize that in the development of the iron and steel industry, there is much which is of a special

nature and we must adopt further measures and policies. Here, in the light of the situation in the iron and steel industry, I will discuss the line of thought and countermeasures for speeding the pace of reform, changing the operational mechanisms, and enlivening medium and large iron and steel enterprises.

1. Appropriately readjust the distribution relationship between the state and medium and large whole-people ownership iron and steel enterprises, to create a fine external environment for enterprises.

1) Initially, we have to resolve the problem of the form of distribution between enterprises and the state. There are four forms from which to choose:

A. Continuing to implement the contracted operation responsibility system. Aiming at the problems which exist in the iron and steel enterprise contracts, we must place stress on and put efforts into perfecting contract conditions, resolving the situation where enterprises contract for profits but not for losses and the problems of enterprise development mechanisms and restraint mechanisms.

B. Enterprises with the appropriate conditions could implement separate handling of profits and taxes. The separate handling of taxes and profits in iron and steel enterprises must have, as preconditions, a reduction in income tax, exemption from handing up the "two funds," raised depreciation rates, increased technical development funds, and continuous supplementing circulating funds. Those large-scale iron and steel joint enterprises with a great influence on the national economy should implement a system where, after paying taxes, they should no longer have to contract to hand up profits but should contract to increase state assets. For example, Wuhan Iron and Steelworks has contracted to build three steel furnaces, while Baoshan Iron and Steel has contracted to build the third-stage of the project.

C. For some enterprises whose development the government strongly supports, in accordance with the policy and operational policies extended to the three types of enterprises which are partly or wholly foreign-owned, we should give them a little more autonomy and allow them to free up their operations, to promote a changeover in operational mechanisms. I believe that letting a number of medium and large whole-people owned iron and steel enterprises implement the policies and operational modes of the three types of enterprises which are partly or wholly foreign-owned, will manifest the state's support for medium and large enterprises, will be beneficial to achieving a changeover in enterprises operational mechanism, and will create conditions whereby they can compete equally with the three types of enterprises which are partly or wholly foreign-owned, as well as township and village enterprises. Thus, experimental points for this operational mode should be expanded a little and we should try, during the Eighth Five-Year Plan to have over 10 medium and large enterprises engaged in experiments in this respect.

D. When local power and financial strengths allow, we should support a number of iron and steel enterprises in implementing overall input-output contracts. That is, they should contract to hand up a certain amount to the financial administration. For any amounts in excess of this, the government should require that funds be invested and the enterprise will contract to increase the value of fixed assets.

2) We must resolve the problems of the iron and steel product tax being too heavy and of benefits flowing excessively outside the industry. First, the added-value tax rate for steel products should be reduced from the current 14 percent down to below 10 percent. The tax rate for steel ingots, steel blanks, pig iron, and iron ore concentrates should also be appropriately reduced by 1 to 3 percentage points. Second, if the existing 14 percent tax rate is maintained, then there should be tax deductions for fuel and power purchased from outside, so that the taxes are fair and there is no double levying of taxation. In addition, the iron and steel industry is a major raw and semi-finished materials industry of the state and we must as quickly as possible reduce or eliminate the "two funds" payments, to guarantee that the enterprise has stable funds for production development.

3) We must establish and perfect a self-development mechanism for medium and large iron and steel enterprises. It is proposed that, for the key state engineering projects, we implement a system where for earnings from newly-added capacity, credit is repaid prior to taxation. That is to say, when enterprises use special-allocation state credit (including the use of foreign funds) to carry out major new construction or expansion projects to form new production capacity, their newly-added economic earnings (including taxes and profits) and depreciation should all, or in general, be used to repay credit and interest. For enterprises which have used domestic or foreign credit to engage in capital construction or carry out technical transformation projects since the Seventh Five-Year Plan, and which currently do not have the capacity to repay the loans, we can allow the use of this method for reference. I believe that if we adopt the system of repayment of credit prior to taxation for investment which adds new benefits, it will basically resolve the problem of a self-development mechanism for iron and steel enterprises.

4) The state must adopt measures to reduce the old credit debts incurred by whole-people iron and steel enterprises for the purpose of carrying out transformation and expansion. Because these debts have already been incurred, new fixed assets have been added for the state forming new production capacity and the assets belong to the state, the debts should mainly be borne by the state. In resolving the problem of the old debts we should adopt corresponding measures in accordance with the different situations. All old debts which were incurred in respect of key construction projects, which were in accord with state industrial policies and which had been approved by the state, should be entirely or partially remitted. Alternatively, a policy of repayment of credit

before taxation for income earned from newly-added capacity should be instituted. Some enterprises might also have part of their circulating tax reduced or remitted. In consideration of the financial difficulties which the state faces at present, we should first resolve the old mine construction debts and of projects beneficial to raising quality and readjusting the product mix.

5) The proportion which can be retained for enterprise fixed asset depreciation and major overhaul funds should be gradually raised and the reappraisal of fixed assets in enterprises should be accelerated. The lowest depreciation rate in iron and steel enterprises should not be lower than 8 percent and that for large enterprises should be a little higher. The major overhaul funds should be raised from the current 3 percent to 5 or 6 percent. The state should adopt effective measures so that, in respect of enterprises which falsely inflate their profits by not deducting depreciation funds and major overhaul funds, the linkage ratio between total wages and economic results is reduced, and the operators are subject to administrative disciplinary measures.

2. We must seriously implement the "Enterprise Law," completely implement enterprise autonomy, and promote a changeover in enterprise operational mechanisms.

1) In implementing the "Enterprise Law," we must first uphold the separation of government and enterprise functions, and change the functions of managing departments.

Managing departments at various levels must implement the streamlining and handing down of power and change from direct to indirect macroeconomic management. In respect of implementing macroeconomic regulation and control, they should do well in planning, coordination, supervision, and service. Those rights of autonomy which the "Enterprise Law" gives to enterprises should be given to enterprises. They should not be given less than that for which the law provides. In accordance with the enterprise autonomy stipulated in the "Enterprise Law," an overall sorting out should be done. All previously issued documents which go against the "Enterprise Law," and all stipulations which violate enterprise autonomy, should be declared revoked. The government and managing departments should manage this properly in five major respects: 1) Examining and appointing or removing major leading cadres in enterprises; 2) formulating industry development plans, examining and approving enterprise development plans and major capital construction and technological transformation projects; 3) fixing the distribution relationship between the state and the enterprises and supervising the maintenance of value and increase in value of state-owned assets; 4) properly managing the balancing and arranging of total production volumes and coordinating mandatory plan production; and 5) supervising the implementation of industrial policies and formulating relevant laws and regulations, as well as handling things that the

enterprises cannot handle or which it is necessary to have government departments handle. This is mainly a service function. Metallurgical managing departments at all levels, especially at present when the pace of reform and opening up is being accelerated, must actively participate in coordination work involving research and the formulation of macroeconomic industrial policies for planning, construction, pricing, taxation, credit, and the import-export trade. They must do well in the overall balance of iron and steel enterprises and structural readjustment and must also earnestly work to reduce the burdens of enterprises and reduce meetings and documents. They must do real work for the enterprises, resolve the enterprises' real difficulties, promote the changeover of operational mechanism in enterprises, put efforts into enlivening medium and large iron and steel enterprises, and create a relaxed external environment for iron and steel enterprises.

2) In implementing the "Enterprise Law," we must speed the pace of internal reform in enterprises.

First, it is necessary to correctly understand and handle the relationship between reform and stability. Reform requires a stable economic environment. At the same time, only through deepening reform, liberating and developing the productive forces, and pushing the economy forward will we be able to essentially promote political and economic stability. At present, we must stress overcoming the concept of stability just for the sake of stability, which results in enterprise reform being unable to advance. As Comrade Deng Xiaoping has said, we must be a bit braver in reform and opening up. We must be brave in experiments and must not act like a woman with bound feet. In other words, we should be brave in exploration and be brave in pushing ahead. Without any spirit of "daring," and without vigor, we will be unable to travel a good road, unable to travel a new road, and unable to take on new undertakings. Thus, we must grasp the beneficial opportunity and push forward the internal reform of enterprises.

We must further break down the two "big pots," where enterprises eat from the big pot of the state and staff and workers eat from the big pot of the enterprises, and gradually establish an internal system whereby enterprises: Take sole responsibility for profits and losses; have self-development mechanisms; where cadres can both be promoted and demoted; where workers can be both employed and dismissed; and enterprises where distribution can be high or low. We should gradually deepen reform within enterprises in terms of the personnel, labor, and distribution systems as well as in the areas of staff and workers' housing, medical treatment, old age care and insurance. We must also promote optimized labor arrangements and gradually implement contract systems and work post contract systems for all staff and workers. This will form a new mechanism under which "appointment to a post depends on competition and income depends on one's contribution." Enterprises should be able to dismiss staff and workers in

accordance with the law if they violate enterprise regulations and discipline. Staff and workers who are not up to the standard required in the posts should be removed from their production or work posts and be made to await employment within the enterprise. For cadres, we should implement an appointment system where they can be both promoted and demoted. We must also do well in deciding organization and staff numbers in accordance with the demands of posts, to truly resolve the problems of overstaffing and bloated organizational structures.

We must continue to make improvements to the internal economic responsibility systems. The enterprise internal economic responsibility system is a successful enterprise reform which today raises little debate and it has already become a basic comprehensive management system for enterprises. We should allow enterprises to actively explore, create, and develop such systems and continually sum up experiences in order to perfect them. In the economic responsibility systems for enterprises of the iron and steel industry, we must pay attention to overcoming the phenomena where "contracts replace management," where assessments are not strict, and where egalitarianism has again raised its head and perfect the economic responsibility system for functional offices.

3) We must improve the reform of enterprise leadership systems and firmly implement the factory manager (director) responsibility system.

First, given that the "three regulations" for whole-people ownership enterprises were formulated prior to the promulgation of the "Enterprise Law," relevant departments should, in accordance with the "Enterprise Law" and recent relevant party Central Committee and State Council directives, formulate "three regulations" so that enterprises have a basis for putting in order the relationships between the party, the administration and the workers and in establishing their own work systems. At present, there is a need to stress coordination of the relationship between the party and the administration, so that "the two hearts become one" and they combine their efforts to run the enterprise efficiently. Second, we must further implement, on the systems level, the various powers which state laws give to factory directors (managers). Relevant departments should formulate specific regulations on the procedures by which factory managers should appoint and dismiss middle-level administrative cadres and the procedures by which decisions are taken on major questions concerning the enterprise. At present, in accord with the "Enterprise Law" and relevant stipulations by the State Council, we should again clarify for the enterprises the stipulations that: "The factory director is the lawful representative of the enterprise," "occupies the central position in the enterprise and also shoulders overall responsibility for the building of material civilization and spiritual civilization in the enterprise," and that "the appointments and dismissals of middle-level administrative cadres in

enterprise are proposed by the factory director or recommended by the party committee, examined by the personnel department, jointly discussed by the party and the administrative leaders, and decided by the factory director." Third, in accordance with the "Enterprise Law," specific measures for rewarding and punishing factory directors should be formulated. Those who do well in running the enterprise should be rewarded while administrative responsibility should be borne by those who run an enterprise poorly.

3. We must further expand opening up to the outside and greatly develop the enterprises' externally-oriented economy.

1) We must fully utilize the "two funds" to actively encourage the development of iron and steel enterprises "which are partly or wholly foreign-owned." We must make the development of "the three types of enterprises which are partly or wholly foreign-owned" a long-term policy in our country's iron and steel industry. We must combine the use of foreign funds with the technological transformation of old enterprises, to promote the technical advance, structural readjustment, and quality improvement of the iron and steel industry and so that enterprises are pushed towards the domestic and international markets. As to the mode for developing "the three types of enterprises which are partly or wholly foreign-owned" in the iron and steel industry, we can either have joint funds involved in the construction of new enterprises or foreign funds can be used to transform or expand old factories, or parts of old factories, thereby forming Chinese-foreign joint-fund shareholding limited companies or limited liability companies. The managing metallurgical departments must do well in providing leadership, coordination, and supervision in respect of "the three types of enterprises which are partly or wholly foreign-owned" and in seriously implementing the state laws and policies in respect of these enterprises, to protect the legitimate rights and interests of the two sides providing funds.

2) We must actively develop the two types of resources and establish a diversified resources base. On the basis of the development of our country's iron and steel industry and its resources situation, it is impossible for the growth in steel output volume to rely entirely on domestic mine resources and it is inevitable that we increase mineral imports. We must encourage enterprises to establish diverse and plural resource bases abroad for iron, manganese, and chromium ores. We can also develop businesses where exports are used to fund exports or where foreign materials are processed domestically, to resolve the contradiction where domestic processing capacity is great and raw materials are insufficient.

3) We must orient towards both the domestic and the international markets and further develop the international trade of the iron and steel industry. We must further expand the foreign trade operational autonomy of medium and large iron and steel enterprises in terms of imports and exports. In particular, we need to

encourage the export of iron and steel products and achieve a situation where the industry both imports and exports. We must push the iron and steel enterprises towards the international markets. Relevant state stipulations provide that all medium and large iron and steel enterprises which have the conditions to engage in the importing and exporting of products should, subject to approval, enjoy import and export operational autonomy. The managing departments should actively assist enterprises to implement their operational autonomy in the foreign trade sphere and not obstruct their autonomy. In respect of the amounts to be exported, the issuing of export licenses and the handling of procedures for staff travelling abroad, they should actively coordinate in and effectively manage these matters. The enterprises must have the right to: Choose which enterprises will represent them in foreign trade; participate in talks with foreign businesses; retain and use a portion of their foreign exchange in accordance with regulations; and the right to enjoy export drawbacks and bonus policies as provided in the regulations.

4. The iron and steel industry should do well in several major aspects of reform experimental work.

1) Properly grasp the large-scale iron and steel enterprise group experiments.

Establishing and developing enterprise groups is one of the important measures in deepening enterprise reform and enlivening medium and large enterprises. This is beneficial to the readjustment of the enterprise operational structure, promotes the rational flow of production factors, raises enterprise competitiveness, and improves macroeconomic regulation and control. The state has already approved large-scale enterprise groups centered on the Anyang Iron and Steelworks, Baoshan Iron and Steelworks, Wuhan Iron and Steelworks, and Panzhihua Iron and Steelworks and the work of establishing these groups must be positively grasped and implemented. On the basis of summing up the experiences of these four experimental enterprise groups, we should grasp a further batch of enterprise groups centered on large-scale iron and steel enterprises, and various steel-smelting groups, and push their development towards multinational operations. This will form a situation whereby the state will manage the large-scale enterprise groups and these enterprises groups will spur on a large number of medium and small enterprises. This will promote readjustment of the product mix and enterprise structure in the iron and steel industry and will smooth out and strengthen industrial macroeconomic management.

2) Do well in the shareholding system experiments in the iron and steel enterprises.

In the shareholding system experiments being carried out in the iron and steel enterprises, the first thing required is to liberate thought. We should use the spirit of the speech in which Comrade Xiaoping urged people to "resolutely experiment" to unify our understanding.

There are many beneficial conditions for the iron and steel industry to select some enterprises in which to experiment with the shareholding system. First, the iron and steel enterprises need this. The development of the iron and steel industry requires a large amount of funds. However, the state's financial power is limited, the enterprises find it difficult to raise funds, and there is a need to obtain funds from beyond the state and the enterprises. Second, the people want this. At present there is a large volume of dispersed funds in society, and through implementing shareholding systems it will be possible to turn these potential consumption funds into production development funds. This will benefit both the country and the people. Third, there is a market for iron and steel shares. In the eyes of the masses, the iron and steel industry is a profitable industry and there will be no problem putting the shares on the market. Fourth there is no risk. At present, our country's whole-people ownership iron and steel enterprises have fixed assets with an original value of 120 billion yuan. The issuing of 20 billion yuan worth of shares will not change the nature of ownership of the enterprises. Fifth, some preparatory work has already been done. Recently, the relevant state departments have been formulating laws and regulations in respect of the shareholding system. Thus, there will be laws on which to rely. The country already has the two stock markets in Shanghai and Shenzhen and this number can be expanded. The state has already approved the Shanghai Special-Shaped Steel Pipe Factory and the Laiwu Iron and Steel Factory for a shareholding system and share issue experiments. The Anyang Iron and Steelworks and the Handan Iron and Steelworks are already carrying out experiments in having staff and workers as shareholders and they have gained experiences which can be used for reference.

To this end, we suggest: 1) We should positively promote, in iron and steel enterprises or individual branch factories which have heavy transformation tasks but good economic potential, the carrying out of shareholding experiments where the corporate body holds shares, the staff and workers hold shares, and shares are listed on a market. These enterprises could be organized as "public-private joint fund" shareholding limited companies. 2) When major capital construction and technological projects are started in future we should, in general, adopt the "public-private joint funds" form to alleviate the contradictions caused by a shortage of funds.

3) Doing well in experiments in freeing planning and prices for the unified distribution of iron and steel products.

Freeing the planning and prices for unified distribution of iron and steel products involves the overall abolition of mandatory plans for iron and steel products and the implementation of guidance planning. It also involves a change from dual-track to single-track pricing to be achieved at one step. For the steel needed by the state, we should implement guided sales. The state will place orders and although the prices will be freed, the state will

enjoy appropriate preferential treatment. The freeing of planning and prices will be of very great significance to raising quality, improving product types, and pushing enterprises towards the market. It will also be in accord with the requirements for our country to participate in GATT.

The reform experiments in freeing iron and steel product plans and prices will be carried out in accordance with the idea that there will be "overall plans implemented in steps." Three possible lines of thought are: 1) On the basis of product types we can gradually expand the relaxation scope. First, we should act in respect of those products for which we have long relied on exports. The planning and prices for iron and steel products for which the market is tight and which have high technical requirements should be entirely freed in one step. 2) We could gradually expand the scope of relaxation on the basis of enterprises. This could first be experimented with in enterprises where fuel and raw materials supply is quite stable and where other external conditions are quite good. For example, this could first be experimented with in the iron and steel enterprise groups. 3) We could gradually relax plans and prices by area. For example, we could experiment in a few provinces. Regardless of which idea is adopted, we should strive to completely free the industry within two years.

PROVINCIAL

Sichuan Price Reform Update

92CE0691A Beijing JINGJI CANKAO BAO in Chinese
6 Aug 92 p 1

[Article by Chen Bao-jiu: "Sichuan Ahead on Price Reform"]

[Text] Commodity prices always sensitively affect people's nerve endings, even a small fluctuation will cause disturbances and restlessness. For this reason, price reform experiments in some places are rather slow in progress. But it all depends on people; price reform in Sichuan started with a good cycle at the very beginning. They deregulated prices of most commodities and the labor market, and changed the old ridged system completely and extensively controlled by the state to a new pattern that is primarily controlled by the state, but also allows flexible market regulations. This step-by-step progressive operational system undoubtedly stabilized people's sensitive nerves. People found out with much joy that price reform was also an elixir for emancipating labor forces and improving people's living standards.

Remodelling a New Price System

"The state regulates markets, markets form prices, and prices lead to trade and production." This is perhaps an ideal price model, but price reform in Sichuan was headed toward this model at the very beginning, and they verified it by their own reform practice.

It was at the later stage of the readjustment period that Sichuan seized the opportunity to increase properly the extent of price reform. They properly relaxed the right to manage prices, and partially returned to enterprises the right to examine and approve prices collected during the readjustment period. They let enterprises assign prices themselves successively for provincial regulated wholesale prices on more than 48 kinds of heavy industrial products made of toughened glass, enamel washbasins, and 17 kinds of light industrial products. They further clarified that all ex-factory prices, wholesale prices or retail prices for eight major categories of textile products, including more than 100 subcategories with thousands of thousands varieties could be assigned by enterprises themselves. Even for some mandatory planned products, they implemented the method of "assigning the place, the quantity, but not the price." Prices for new commodities, for pilot products and for ex-province products were all transferred to enterprises.

In fact the overall index of retail prices in Sichuan Province that year (1991) increased 2.3 percent; a year of the least increase for commodity prices since 1983. This pilot project was quietly accepted by people.

Sichuan seized the right opportunity to propose price reform.

At the beginning of this year, the Sichuan Price Bureau again proposed successive new measures for price reform: transferring to the lower levels and deregulating prices on 23 kinds of commodities; deregulating prices managed by the province and administrations at lower levels for 105 large and middle sized enterprises in the pilot management system transfer project, and implemented market regulations; implementing the reform to deregulate prices in the state retail enterprises and some state wholesale enterprises throughout the province; transferring to the lower levels the right to manage commodity prices in 14 counties designated by Sichuan, except for commodity prices managed by the party Central Committee and 12 commodity prices managed by the province.

According to financial statistics from Sichuan Province at the end of 1991, of retail commodity prices, only 28 percent was assigned by the state; of purchasing prices for agricultural and sideline products, 23.2 percent was assigned by the state; of the prices of the means of production, the proportion of prices assigned by the state was also reduced to 32.9 percent. Retail commodities regulated by markets in Chendu, Guanghan and other cities and areas, reached 95 percent in terms of finance. A new system where prices for a few important commodities were assigned by the state, and prices for most commodities were regulated by markets was established.

Release Water: Not Afraid of Harming Fish

On 1 April, during a popular fair, 530,000 residents of Guanghan City, Sichuan Province, accomplished the

transfer that brought the prices of grain and oil into the market system, that is to deregulate prices of grain and oil at one blow.

Pilot projects are a successful experience of price reform in Sichuan Province.

Since 1988, Sichuan Province selected Guanghan City and Langzhong City for the pilot price reform project. They created policies favorable for price reform, extended the right of economic management, and encouraged the two cities to explore daringly based on their reality and with the purpose of developing labor forces.

In recent years, deregulating purchase and sale prices of vegetables and meat, the reform on the subsidies for employees from covert to open, deregulating prices of commercial enterprises, the reform to implement the controlled difference rate, the establishment of a special fund for price readjustment, the reform to merge "the double track prices" of chemical fertilizers and diesel oil, paid medical care, the reform to base charges on costs, and deregulating prices of grain and oil at one blow, and all those pilot reform experiments achieved successes. The explorations of Guanghan and Langzhong provided ways of thinking and operational experiences for Sichuan and all of China for coping with the difficult problems in price reform.

To match price reform with other comprehensive reforms, Sichuan selected 105 large and middle sized enterprises this year, deregulated prices managed by the province and administrations at lower levels, and let those enterprises assign the prices by themselves to stimulate their initiative.

For the past two years, the Chengdu Steel Plant suffered serious deficits. From this January to March, the cumulative deficit reached 2,580,000 yuan. Since it was selected for the pilot price reform project this April, it eliminated the deficit in the very first month, and netted a profit of 750,000 yuan. In May, it netted a profit of 1,950,000 yuan.

The combination of the work on key points with the work in all areas, the interactions among professions, and the multi-level reform experiments injected vitality into the gigantic systematic project of price reform in Sichuan and provided the guarantee for remodelling a new price system.

Dialectics for Deregulation and Control

Sichuan has both sweet and bitter experiences in price reform. At the very beginning of reform, there appeared in some places the unhealthy cycle of "if unified, everything becomes too rigid; if free, then everything in disorder." From bitter experiences, Sichuan people learned a truth that the pure deregulation of prices is not what reform is all about, if there are no follow-up

regulation measures, and the protective system is incomplete, it will offset the positive effects of price deregulation and the market system, and under certain circumstances, it will even create extreme high or extreme low prices, and have negative side-effects on economic development.

Since 1988, some places in Sichuan Province began trying to raise funds for readjusting prices from the excess profits of some commodities in order to strengthen government's capability of regulating commodity prices, and use it for balancing commodity prices, promoting production, and protecting the interests of the masses when necessary.

Located in the northern part of Sichuan Province, An County has the annual movable financial resources of only several hundred thousand yuan. In the past, its budget became tight whenever there was a serious fluctuation in the market. Since 1988, the county collected funds for regulating commodity prices successively from such commodities as pork, chemical fertilizers and pesticide, and accumulated 760,000 yuan. At the end of 1989, the market price for pork assigned by the state was 2.30 yuan per 500 grams, and food companies in An county were unwilling to supply a large quantity of pork for the fear that they might suffer a loss. As a result, the masses wanted to buy pork in state stores but they could not, and the price of pork in the free markets skyrocketed. The masses complained a lot. Thus, An County used the fund for regulating prices to compensate the food companies, which helped ensure sufficient market supplies. Before long, the price in the free markets also came back to the normal level.

To reinforce the guidance for deregulating prices, some places explored establishing a system of cooperating prices in trades. Since 1988, Chendu City made a trail experiment of cooperating prices in the same trades for oranges, honey, tea, local herbs, and beverages. This effectively avoided the monopoly to force up and down commodity prices, and protected the initiative of producers and the managers.

Chongqin City explored implementing the system to record the movable prices of important open commodities, that is to deregulate enterprise assigned prices on important commodities, and when prices change, it should be reported to the price department and recorded on file, and if the price department considers it unreasonable, they have the right to interfere and rectify. The establishment of these protective measures opened up a channel for the normal operation of the new price system.

The brand new price operation system, the reformed price management model, and Sichuan's daring explorations on price reform opened up a channel for China. Although it is not a shortcut, and it will have tortuous and circuitous trails ahead, we are certain that Sichuan's explorations will have a far-reaching significance on reforms in China.

Hunan Aviation Enterprise Group Inaugurated 18 Sep

HK2809071092 Changsha Hunan People's Radio Network in Mandarin 2300 GMT 19 Sep 92

[Text] The China Nanfang Aviation Power Machinery Group, China's first enterprise group of its kind, was founded in Changsha yesterday.

The group is one of the first 55 experimental enterprise groups nationwide, which were approved by the State Council. It is also Hunan's first and only state-level high-tech enterprise group.

The China Nanfang Aviation Power Machinery Group, with the China Nanfang Power Company as its core enterprise, is composed of 19 enterprises and institutes engaged in aeronautical research and production in Hunan, Guangdong, and Hainan. Its core enterprise, the Zhuzhou Nanfang Power Company, is China's cradle factory producing airplane engines and air-to-air missiles as well as a research and production base for medium and small airplane engines. It is also one of 25 fixed point motorcycle enterprises throughout the country and was one of the top six.

The newly established China Nanfang Aviation Power Machinery Group will engage in diverse businesses in accordance with the principle of making the aviation industry its foundation; combining military industrial enterprises with civil industrial enterprises; focusing on manufacturing civilian products; giving play to overall advantages; looking towards domestic and foreign markets; applying high technologies; and striving for high quality, size-operation efficiency, and common development.

The group is a [words indistinct] body corporate. At present the core enterprise hires 15,000 workers with gross industrial output value standing at 800 million yuan. The group will exercise unified management in six fields including financial and personnel affairs, promote rational circulation of essential factors of production, bring overall strong points and [words indistinct] into play in order to increase its competitiveness in the market, make enterprises within the group mutually complementary to each other economically, speed up transformation of the operational mechanism, and open up domestic and foreign markets rapidly. According to the group's plan, its year-end output value and sales will reach over two billion yuan by the end of the Eighth Five-Year Plan and over five billion by the end of the Ninth Five-Year Plan.

At yesterday's inaugural meeting, Yu Kong, representative of the State Planning Commission, read out the State Council's approval for setting up the China Nanfang Aviation Power Machinery Group. Mo Wenxiang, former minister of the Aeronautics Ministry; Zhang

Hongbiao, chief engineer of the Aeronautics and Astronautics Ministry; provincial party, government, and military leaders Qiong Qingquan [provincial party committee secretary], Chen Bangzhu [governor], Xia Zanzhong, Yu Haichao, Liu Yie, Xiao Qiuru, et al attended. Mo Wenxiang, Zhang Hongbiao, Qiong Qingquan, and Chen Bangzhu cut the ribbon at the inaugural meeting.

FINANCE, BANKING

Article on Joint-Stock Companies, Stock Market

HK0210083692 Beijing ZHONGGUO JINGJI TIZHI
GAIGE in Chinese No 6, 23 Jun 92 pp 18-25

[Article by Liu Hongru (0491 7703 0320): "Probe for a Correct Path—Questions on the Experiments in Joint-Stock Companies and Stock Market"]

[Text] Editor's note: Debate on the issue of establishing a stockholding system and stock markets have lasted many years in our country. Today, with deepening reform and expanding opening up, "stockholding and a stock craze" have again appeared in some localities. Reception to stockholding and stocks some time ago was overly cold and now is overly warm. Everybody says we must strengthen leadership and handle stockholding and stock market experiments well in strict accordance with standardized and normalized requirements. Only then can we ensure healthy development of this reform and enable people to see from practice that establishing socialist stockholding and stock markets is an effective way for solving some of the important issues in the development of the national economy.

This edition of the journal runs an article by noted economist Comrade Liu Hongru, vice minister of the State Commission for Restructuring the Economic System, which carries important significance for charting a healthy development course for the current important reforms. It is hoped that the broad mass of economic workers make a point of reading this article. [end editor's note]

The stockholding system and stock market experiments in our country arose from an attempt to adjust to a rise in the extent of socialization in production and the requirements posed by the development of the socialist commodity economy. They are the products of reform in economic restructuring. The situation over the last few years allows us to judge that the experiments have played a positive role in developing social productive forces and promoting the development of a socialist commodity economy, though they are still far from being standardized and normalized; indeed in some places development has been blind and heedless of objective conditions. The current pressing task concentrates our efforts on normalizing things and ensuring healthy development of reform to help us find from the practice of reform the correct path for building a socialist stockholding system and stock markets.

The Experimental Stockholding Program Unfolded Step-by-Step and Under Leadership

Following the Third Plenary Session of the 11th CPC Central Committee, peasants actively developed commodity production and circulation. At first they raised capital to initiate rural enterprises in the form of "promoting labor force with capital and promoting capital with labor force." In 1984 the party and the state repeatedly affirmed and supported this form of share-buying for raising capital to develop the economy, which later gradually developed into the "share cooperation system" based on the collective economy or joint-household cooperative economy.

The "CPC Central Committee Decision on Reform in the Economic Structure" proposed: "Extensively develop flexible and different types of cooperation ventures and economic integration among the whole-people, collective, and individual economies on a voluntary and mutually beneficial basis." Guided by this principle, joint-stock companies appeared with the growth of horizontal economic integration. They originated in coordination in material supplies between regions and later developed into capital and technological coordination between firms. Prior to this, the prototype for joint-stock companies had appeared in a few places. In 1983 the Joint Investment Company in Baoan county, Shenzhen, issued the first public share certificates in Shenzhen; in July 1984 the first joint-stock company—Tianqiao Joint-Stock Department Store—appeared in Beijing; and in November 1984, Shanghai Feiyue Audio Company, formed by Shanghai Electric and Audio Factory, was the first joint-stock company since the founding of the country to publicly issue stocks to society under relatively mature norms and standards. It raised over 400,000 yuan through the issue.

In October 1987, the 13th Party Congress Report pointed out: "The stockholding system that has emerged from reform includes shares controlled by the state, participating shares held by departments, regions, and firms, and those purchased by individuals. It is a form of organization of socialist corporate wealth. Trial pursuit of this system can be continued." From then on the number of experimental joint-stock companies in many localities rapidly increased.

Some problems emerged during this period as a result of a lack of essential knowledge and experiences, legislation, management methods, and supervisory organs; for example mixing up stocks with bonds; allowing shareholders to withdraw after having bought shares; underestimating state-owned or collective assets, in effect allocating the underestimated value of collective assets to individuals when these assets are sold to individuals; setting a higher share dividend rate in advance; counting share dividends as pre-tax costs, and so on. The State Commission for Restructuring the Economic System took measures to provide guidance to these problems in February 1989.

After 1989, in line with the requirements of improvement and rectification, the experimental stockholding project focused on perfection and improvement. In May 1990, the State Council relayed the State Commission for Restructuring the Economic System's "Opinion on Deepening Enterprise Management in Improvement and Rectification," which advanced the policy of distinguishing three kinds of situations and continued effort in the experimental stockholding systems, which were: One, active trial practice of a stockholding system in which enterprises buy or own each other's stocks. Two, experiments in employee stockholding system should cease expanding. Programs already launched should focus on perfection and improvement and edge toward standardization and normalization, taking extra care to prevent virtual expansion of consumption. Three, experimental coordinated reform in publicly issued stocks will continue to be confined to Shanghai and Shenzhen; no new places for experiment are conceived.

The "CPC Central Committee Proposals on Formulating the 10-Year Program on National Economic and Social Development and Eighth Five-Year Plan" adopted by the Seventh Plenary Session of the 13th CPC Central Committee in December 1990, suggested "gradually expanding bond and stock issues, vigorously strengthening management... Building and perfecting securities exchanges in metropolitans having the right conditions." In November 1990 and April 1991, Shanghai and Shenzhen approved at different times the opening of securities exchanges.

According to incomplete statistics, by the end of 1991, there were 3,220 experimental companies of various types across the country (excluding the share-cooperation system in township and town enterprises and Sino-foreign joint ventures and domestic joint-operation enterprises). Of these, 380 pursued the stockholding system where shares were held by legal entities; 2,751 pursued the employee system; and 89 publicly issued shares to society, respectively accounting for 12, 86 and 2 percent.

Of the total shares amount of the 89 companies which issue shares publicly to society, 47 percent were state shares, 29 percent legal entity shares owned by investment companies, 14 percent were held by individuals and 9 percent by foreign concerns. Public-ownership shares occupied a dominant proportion.

Of all the publicly issued shares, only those in Shanghai and Shenzhen are listed and traded in the two cities' securities exchanges. The shares of one company in Zhejiang are listed and traded in Shanghai. Trading of the rest is a problem awaiting solution.

Viewing the securities market as a whole, bonds are the major player in the market. Stocks occupy a very small proportion. The situation in 1991 showed that 62.4 billion yuan of various state-approved negotiable securities were issued in the issue market, of which 400 million yuan was in newly listed stocks, a mere 0.6 percent. In

the circulation market, the total transfers of all types of negotiable securities for the whole year amounted to 55.47 billion yuan, of which company stocks occupied only 4.51 billion yuan, 8.1 percent.

The Pursuit of the Stockholding System Helps Solve Some of the Significant Problems in Our Country's Economic Development

The pursuit of the stockholding system can have its share of contributions toward solving some of the significant problems in China's economic development.

For example, national economic development must be maintained at a certain speed. This requires capital input. But the state is short of capital and has relatively serious financial difficulties. This is one contradiction. To solve it, we need to channel money in the hands of the public in various ways into capital for construction. In the past, to make this possible, there was only one channel, namely indirect financing through banks. But too many deposits piling up in banks will increase inflation pressure. The experimental stockholding system proves that direct financing through issuing securities is another channel. It has the advantage of giving only dividends but not principal and sharing risks. After 12 years of reform, income distribution patterns in the country have changed. Citizens' income has increased (individual income rose from 49.3 percent of total national income in 1978 to 61.3 percent in 1990). This provides conditions for raising capital through stock issue.

An irrational economic structure is another important problem facing us. Structural adjustment requires concentrated use of new increases in capital, and a rational flow in inventory assets. But since both the investors and beneficiaries are now diversified, both concentrated use of capital and inventory asset flows are very difficult. To overcome this difficulty, it is necessary to find a way that can coordinate the interests of all parties. Stock issuing has precisely this function. Through it, we can concentrate newly increased investment in certain areas and restructure inventory assets.

Insufficient vitality in state-owned enterprises is another common problem. To fundamentally solve this problem, it is necessary to switch the operation mechanism, let enterprises run the operations independently and handle their own profits and losses. But there have been no precedents for enterprises owned by the whole people to bear their own profits and losses. We need to explore it. The experience of the experiment proves that is a realistic form for enterprises wholly owned by the people to go independent with their profits and losses, and so can be called an effective way for switching enterprise operation mechanisms and strengthening their vitality.

In sum, we must unswervingly persist in the experimental stockholding system because the development of enterprises demands it. It is also required in solving certain significant problems in the development of the national economy. Understanding it at this level helps

steel our confidence and determination to continue with the experimental stockholding system. Of course, we are only saying that stockholding is one of the many different forms of operation, not the only one. Enterprises should be encouraged to base themselves on practical situation and choose a form of operation most suited to them.

Public Share Issues at Present Can Only Be Pursued as Experimental Programs and We Must Not Be Impatient for Extension

Some localities are eager to pursue the public shares issue system and develop stock markets. Their feelings and wish for increasing the pace of reform are understandable. But the pace of extension depends on whether they have the right conditions. At present they do not have the conditions. This is chiefly shown in the following aspects:

One, rules and regulations are lagging behind. Experiences of many countries prove that there will not be success if the establishment of standardized joint-stock companies and stock markets does not go with complete and sufficient law and rules and regulations. In our country, relevant rules and regulations such as company law, securities laws, and securities trading laws have not been promulgated. The "Interim Provisions for Limited Stock-Joint Companies" drafted by Shanghai and Shenzhen city governments have been promulgated and gone into effect. But they are after all local regulations. Other localities also have some policies and provisions, which on the whole do not meet general stockholding regulations and have too strong a local color and therefore cannot effectively protect the interests of general investors and ensure the normal operation of joint-stock companies.

Two, ill-adapted government management. Joint-stock companies are a different form of business organization from state-owned and collective enterprises. None of the existing management methods in the financial, auditing, taxation, labor, personnel, commercial and industrial, statistics and material supply fields and macroscopic management can satisfy the needs of joint-stock companies. In particular, the existing accounting system cannot comprehensively and accurately indicate costs, profits, and the entire operation status and help protect the interests of general investors. There should be gradual reform, reorganization and restructuring. Meanwhile, we should also set up a system of corresponding social institutions to serve the system, such as establishing detached, impartial, and authoritative accounting offices, assets assessment organizations, legal services, and so on, while government will focus its energy on supervising these organizations.

Three, lack of knowledge of stockholding systems and stock markets, serious lack of talent and insufficient practical experiences. Many managers in charge of economic affairs and persons-in-charge of the experimental joint-stock companies lack even basic knowledge in

joint-stock companies and stock markets and know very little about their operations. This has become a major obstacle for turning the stockholding experimental system into a standardized operation and has been an important reason for some localities to treat organizing joint-stock companies purely as a capital-raising means. The masses do not have the concept of risks and are not mentally prepared. This also requires a process of propaganda and education.

Four, the establishment of a market requires a process. A capital market is part of the overall market system. If there are no corresponding development and reforms in other types of markets, the capital market will not be able to move ahead in isolation. The commodity market in our country at present is not yet sound. The prices of a large number of commodities are state-controlled, and many enterprises are still under state mandatory planning. Correct estimates of an enterprise's expected profit rate and its share prices is impossible under distorted market prices, thus precluding extensive pursuit of stockholding and stock trading, both of which involve public shares issue.

Five, established or reorganized joint-stock enterprises in localities are not standardized and have many problems. The two securities exchanges in Shanghai and Shenzhen have just been established, are still highly imperfect, and have yet to achieve the level required by the experiment.

All that is said above shows that we do not yet have the conditions. The stockholding system which features public share issues can only be pursued on an experimental basis and cannot be extended and popularized. Of course, we should have a positive attitude and adopt measures to create conditions; we cannot wait passively. To handle the experiment well, in many ways we can go beyond the existing systems and structures, unify people's understanding and train talent. By doing so we are actively creating conditions.

The Experimental Stockholding System in Our Country Must Uphold the Socialist Direction

Can the pursuit of the stockholding system uphold the socialist direction? There must be a very clear answer to this question. Otherwise there will always be worry at the back of people's minds, which will affect the determination for and confidence in the experiment.

Although stockholding saw its appearance in capitalist countries, it is not a unique feature of capitalist countries. Stockholding is a kind of organization of corporate wealth. Capitalist countries can employ it, so can socialist countries. The difference between the two lies in the difference between private or public ownership.

There is a view that stockholding is the road leading toward privatization. This view is without ground. The pursuit of private or public ownership is entirely a matter of political decision and has no necessary relation with the stockholding system. Our political decision

holds that we must uphold socialist public ownership, so our experimental system is one based on public ownership. In the final analysis, upholding the socialist direction of the experimental stockholding system is upholding public ownership as the main body. The experiments described above, the "Interim Provisions for Limited Joint-Stock Companies" in Shanghai and Shenzhen and various recently drafted provisions and methods for stockholding all stated very clearly upholding public ownership as the main body. In practice all experimental joint-stock companies have been able to do that. Therefore we can say unequivocally that our experimental stockholding system has unswervingly upheld the socialist direction.

However, we must also note that in the discussion of stockholding a few years ago, there were people who wanted to pursue privatization under the cover of stockholding. The mistake of this thought lay in the "actual pursuit of privatization," not the system which was used as the front. What we resolutely oppose is privatization. But we do not because of that oppose the stockholding system.

With the pursuit of the stockholding system, enterprises previously under the single form of whole-people ownership will become those which feature multiple ownership by the whole people, collective units, and private individuals, all in a single enterprise. This is particularly true for joint-stock companies which undertake public issues. But as long as society as a whole continues to take public ownership as the main body, the socialist direction will remain intact. A number of private and foreign-capital firms have emerged in our country since reform and opening up. Various economic elements have long coexisted in society. The system only turns this coexistence in society into one within a firm. This is going to be even better for the public-ownership economy in providing guidance for the private economy. It will only strengthen, not weaken, the main-body status of public ownership.

To maintain the socialist direction of the stockholding system, we have installed some policies and principles in the measures for the experimental program; for example explicitly stipulating that only enterprises in certain production sectors can undertake public share issues, and those in certain other production sectors cannot. Some enterprises are allowed public share issues provided that state-owned shares in these enterprises occupy a controlling proportion. This way we can keep industries and enterprises vital to the national economy in the hand of the state and ensure that overall public ownership remains in a dominant position. Another example: To ensure that public ownership is in a dominant position in joint-stock companies, the proportion of shares of a company held by the state, legal entities, and individuals shall be determined by the examining and approval organ in light of the status and role of that company in the national economy. There is yet another example. A provision promulgated by Shanghai and Shenzhen specifies that the stocks owned by a natural person shall not

exceed 5/1,000 of the company's total shares. All these can serve to guarantee the dominant status of public ownership.

Viewing it from a Marxist standpoint, Marx never described stockholding as something unique for capitalist society.

In many places in Volume Three of *Das Kapital* Marx touched on the problem of stockholding. Let me quote a few relatively well-known lines:

As a result of the appearance of joint-stock companies, "there has been an amazing expansion in production scale. Enterprises previously impossible to establish with individual capital have now appeared. Capital which is built on a social production mode and premised on a social concentration of capital goods and labor force, here assumes directly a social capital form (that is capital formed as a result of a direct association of individual capital), and set itself up against private capital... This represents a relinquishment of capital as private property within the scope of capitalist production mode." (*Collected Works of Marx and Engels*, Vol 25, p 493)

Stockholding represents a "relinquishment of capitalist private property within the capitalist system. The bigger stockholding becomes and the more it penetrates production sectors, the more capable it will be of eliminating private property..." (*Collected Works of Marx and Engels*, Vol 25, p 496)

"Like cooperative factories, the joint-stock company in capitalism should be seen as a transition from the capitalist production mode to a joint [lian he 5114 0678] production mode. The only difference is that the opposition in the former was actively relinquished, and passively in the latter." (*Collected Works of Marx and Engels*, Vol 25, p 498)

This shows that stockholding appears as a result of the socialization of production and in turn further promotes the development of production. Capitalist stockholding did not eliminate private ownership at its root. But since stockholding adopted the form of social capital and social enterprise, and set itself off against private capital and enterprises, it represents a transition from the capitalist production mode toward a joint production mode, and perhaps even toward communism.

A socialist society can resort to stockholding in organizing modernized large-scale production. Under the condition of upholding public ownership of capital goods as the dominating factor, it is entirely possible to put stockholding and stock markets at the service of the development of socialism.

The Key for Handling the Experimental Stockholding Program Well Lies in Standardization

Although experiments in stockholding and stock markets have developed relatively rapidly and people have been eager for them, most of the joint-stock companies have

failed to measure up to the requirement of standardization. Many of them are "distorted" and "disfigured" and have created bad influences. Therefore, we must not pursue blind development and get impatient for success. We must work hard to achieve standardization and ensure that the experiment is a success.

Globally speaking, the birth, development, and gradual maturing of the stockholding system have taken hundreds of years. During the process, problems continually cropped up, and measures were continually taken to solve them; and rules and regulations and methods of supervision were continuously perfected, until, gradually, a set of standards appeared. The basic standards of the system reflect the objective laws, which must be observed by the system in any country, for only then can it work in accordance with objective laws. The basic standards of the stockholding system must conform with the practical situation in our country. But that does not mean that we can take leave of the basic standards, arbitrarily lower requirements and go about setting up our own "indigenous model."

It should also be pointed out that only a standardized stockholding system can meet the needs of opening up to the outside world, and can we move toward the world. As opening up to the outside world continuously expands, enterprises in our country eventually must orient to the world. Experimental joint-stock companies in Shanghai and Shenzhen have started B share issues, which is to be listed and traded in Hong Kong. In the future, some enterprises may be listed in foreign countries, and firms from outside the borders may be listed on China's stock markets. To pursue these exchanges in the international world, our basic standards must be centralized before they can conform with the international counterpart. To make a graphic analogy, there must be centralized competition rules for different international sport competitions, so also for the stockholding system.

I laid special emphasis on standardization for the sole reason that standardization determines the success or failure of the experiment in the stockholding system and the future and fate of our efforts to develop it. All relevant department and experimental enterprises must attach full importance to it.

1. The first requirement for standardizing the experiment in stockholding is standardizing the organization and operation of experimental joint-stock companies. There are chiefly three kinds of experimental joint-stock companies or alternatively four kinds of status: One, joint-stock companies which undertake public share issues, of which there are two different types. The first is those whose shares are listed and traded on the Shanghai and Shenzhen Securities Exchanges; and the second are those whose shares are not listed or traded on the market. Two, joint-stock companies whose shares are owned by legal entities. Three, enterprises whose shares

are owned by their workers. These three kinds, or alternatively four kinds of status for experimental joint-stock companies have some common basic standards as well as some common problems.

One, is the problem of assets assessment. When being reorganized into joint-stock companies, some enterprises of whole-people ownership did not conduct any serious assets assessment and came to a shares price according to book value, without counting in land use fees, plant and equipment revaluations, or invisible assets. Some even did not conduct any assets evaluation, and as a result drained state-owned assets and caused new shareholders to encroach on the interest of state shares.

Two, the problem of risk-sharing. Some experimental enterprise and individual shareholders want only to share profits but not risks. Individual shareholders are given interest and dividends even when the company is suffering from profit downturns or even losses. Some enterprises not only guarantee shares interests and dividends for individual shareholders, but also pay the dividend tax for them.

Three, the problem of different rights for different shares. A considerable number of enterprises fail to distinguish the differences between holding stocks and holding bonds, shares and bonds and shares and interest earnings. They offer guarantees of principal, interests, and dividend payments; and the dividends they pay are higher than their capital profit rate. An enterprise had only an 8 percent capital profit rate but it paid a 16 percent dividend yield for individual shares, in effect lowering state shares dividend to maintain the dividend yield of individual shares. Some enterprises treated by internal workers as something of an additional money award.

Four, counting dividend yields as cost. Theoretically, dividend yields are capital returns and should come from after-tax profits. But some experimental enterprises count dividend yields as cost in order to fulfil the guarantee for dividends.

Five, the problem of leadership structure. The members of the director boards of some experimental enterprises were not appointed by shareholders but chosen by a higher-level department in charge of the enterprises. The managers of these enterprises are not appointed by the board of directors but by administrative departments, as in enterprises of whole-people ownership. Some enterprises do not have a set of procedures to guarantee that the board of directors can discharge its duty as the representative of shareholders. The board of directors do not represent the interests of shareholders and is as good as gone.

All the problems listed above are the specific indications of the absence of standardization. They not only affect the normal operation of joint-stock companies, but more seriously, create bad influences in society. Worse, they

might give the impression that the pursuit of the stockholding system means undermining the state or just another form of giving workers cash awards. To ensure a smooth implementation of the system, we must conscientiously remedy nonstandardized behavior.

2. The second requirement for standardizing the experiment in stockholding is standardizing government administration of joint-stock companies. Government departments in some localities still run joint-stock companies with the management method used in enterprises of whole-people ownership. Under this situation, joint-stock companies cannot operate normally, and the target of switching enterprise operation mechanism becomes harder to realize. This is shown chiefly in the following problems:

First, the problem of assuming responsibility for profits and losses. One of the important goals of the reorganization of the stockholding system is to make enterprises assume responsibility for profits and losses based on their corporate capital. As a shareholder, the state assumes responsibility limited to the amount of capital injection. But even now, some joint-stock companies still report to the government asking for help and solutions when they are losing. This in effect is asking the government to shoulder unlimited responsibility. This is more than nonstandardized government administration. It actually leads to nonstandardized behavior on the part of enterprises. Such an experimental system, where the workers receive benefits and government is made to bear risks, seems to have taken care of joint-stock companies, but in fact is leading the experiment astray.

Second, the problem of independent operations. Since joint-stock companies are asked to bear their own profits and losses, they must be given full operational autonomy, including decisionmaking powers in simple reproduction fields in production, supply, sales and pricing; in expanding the scope of reproduction such as fixed-assets investment; and in personnel, labor, and distribution fields. Now a considerable number of experimental joint-stock companies are still pursuing a management system and methods typically seen in enterprises in whole-people ownership. The fact that enterprises do not have the necessary decisionmaking powers has an impact on the goal of them assuming responsibility for profits and losses. Since the enterprises do not have the necessary decisionmaking powers, naturally they cannot be asked to bear the resultant profits and losses. Of course, independent enterprise operations do not exclude the state macroscopic regulation and control on economic activities. But this will have to be done indirectly. There can no longer be direct regulation and control, as in the case of enterprises of whole-people ownership.

Third, the problem of shares dividends. Right now the state is pursuing the contract system in enterprises of whole-people ownership. Experimental joint-stock companies should stop the contract system, and the state

should receive its part of dividends as one of the shareholders. In practice, some localities pursue a combination of dividends and contract; that is, joint-stock companies are still given a contract quota. Those failing to achieve the target must hand in a portion of profit after dividend payments. This is another form of different benefits for the same kind of shares—it is the infringement by state shares on the interests of other shareholders.

Fourth, the problem of profit distribution priority. On usual stockholding standards, the distribution priority of after-tax corporate profits goes as follows: First repaying due loans, putting aside a sum for development provident fund, then distributing shareholders' interests and dividends. But some localities do it this way: First distributing dividends, then repaying loans, and whatever is left goes to development provident fund.

Government administration on experimental joint-stock companies must be standardized according to the requirements of the stockholding system. To do this, it is necessary to launch comprehensive reforms in all systems. In practice this means that administration of joint-stock companies will employ a set of structural management entirely different from the existing one. Such a task is going to be very difficult. But in a long-term perspective it carries great significance. It tells us that the stockholding experiment is not purely an experiment in enterprise structural reform, but an integrated experiment in comprehensive reforms in all systems. This reform is going to provide an important experience for the effort to establish the new structure of a planned commodity economy.

3. The third requirement for standardizing the experiment in stockholding is standardizing the organization and operation of the stock market. As we have very little practical knowledge in the organization and supervision of the stock market, many problems have yet to be recognized. At present the following problems await urgent study and solutions:

First, setting up securities exchanges. Recently many cities have sought approval for setting up securities exchanges. This in itself betrays a lack of understanding of the basic standards for stockholding. Securities exchanges should be an open, not closed operation, and therefore cannot be set up according to administrative regions. They must be based on a centralized national layout. In view of the recent establishment of the two securities exchanges in Shanghai and Shenzhen, where things are still to be perfected, the experiment has not yet been completed; and for the moment there cannot be any new securities exchanges in other cities. The number of securities exchanges that will be set up in China in the future depends on two factors: One, the level of development in the commodity economy, joint-stock companies and securities markets; and two, the level of sophistication in scientific and technological equipment, such

as telecommunications. The more advanced telecommunications are, the more concentrated market trading will be.

Second, the problems of stock trading and listing a company in another city. There are two scenarios: One, enterprises which have issued shares to the public and the necessary conditions, can be listed in Shanghai and Shenzhen Securities Exchanges after examination and approval. These are the minority. Two, for enterprises which have been approved for public shares issue but do not have the conditions to go public, there is the problem of share transfers. There are two methods around the world for this: One is over-the-counter trading, to be developed into a second market with a computer-linked clearing network; another one is that the stockholder himself hunts for a client, sets the price and makes account-to-account ownership transfers either through the enterprise itself or a financial agency. It was over-the-counter trading in Shenzhen stock trading earlier when it was relatively chaotic, which gradually improved after the establishment of the securities exchange. Now some localities want over-the-counter trading. But judging from Shenzhen's lesson and in view of our lack of experience, imperfect rules and regulations and management methods and the people's weak concept of risk, at the moment it is not suitable to allow over-the-counter trading. And the account-to-account ownership transfers are difficult in management and may easily create a black market. The second market with strict management and computerized pricing requires certain conditions. At present we must focus our effort on researching for an operation method.

Third, public share issues, and particularly, floating of a company must meet standards and satisfy conditions. This is an important matter of protecting the interest of shareholders. Acceptance of shareholders must go through auditing and notarization by independent accounting and law firms. Apart from unsound and incomplete rules and regulations and a nonstandardized accounting system, overseas response to our country's stock markets consist mainly of one, we do not have a high requirement for companies to go public, and two, lax accounting inspection. People therefore do not have sufficient faith. The greater-than-supply demand for B shares resulted entirely from people's faith in China; we cannot yet judge the operation performance of listed companies simply on the number of share prospectuses. We must keep our heads; we must not grow contented because we already have the listing requirements and accounting and law firms. Since we are moving toward the international world, we must meet international standards. One of the reasons for Indonesia's failed bid at a stock market was untruthful information and fabricated cost and profit accounts.

Fourth, the problem of supervising the stock market. Judging from the present situation, the main thing is to solve two problems well: One, stop insider trading. Talking of opposing speculation in general terms will not help us get at a specific boundary. Many countries are

still improving management methods. There are still many problems. Our securities markets are still at an initial stage; rules and regulations are still unsound and incomplete, we do not yet have enough work experience, and people's concept of risk is weak. All these require all the more arduous efforts and gradual adoption of solutions. In sum, building a stock market and supervising an orderly operation are a very complicated matter and cannot be regarded lightly. Precisely for these reasons, we cannot launch too many stock markets. Simplifying a complicated problem is often the source of problems.

The Work Focuses for the Present Stockholding Experiment

The guiding thoughts for the step of stockholding experiment should be: A resoluteness to continue the experiment; not wanting too many but wanting what there is to be good; and there cannot be chaos. We must be bold, steady in step, pragmatic in our work and do the job well in different stages, "well" in the sense of conducting the experiment strictly according to the basic standards till it bears fruit.

First, as quickly as possible formulate rules and regulations and methods for the organization and establishment of joint-stock companies and the experiment. Rules and regulations for the whole nation, which mainly mean company, securities, and securities trading laws, should be formulated at an increased pace and promulgated as soon as possible. Earlier, the State Commission for Restructuring the Economic System and relevant departments have jointly formulated and circulated "Methods for the Experiment in Joint-Stock Companies" and other relevant policy papers to serve as the basis for localities in the experiment. It will be revised, perfected and developed into a formal national regulation on the basis of summed-up experiences.

Second, actively create conditions and launch and extend the experiment by stages and in planned steps. The guiding thoughts should be clear and explicit. All different types of joint-stock companies must have the required rigorous conditions. Main efforts should be concentrated on the reorganization and building of joint-stock companies. We must not rush to issue stocks, much less can we float companies for trading. We must proceed in an orderly manner, step by step, and steadily, and identify different situations. Joint-stock companies with stocks held by legal entities and workers within the companies are smaller in scope involved and less technological sophistication, and so can be the focus of the current experiment. There are two types of joint-stock companies undertaking public shares issue. The first type is nonlisted trading; that is, trading not done at a securities exchange. At present this is confined to Guangdong, Fujian, and Hainan. The second is the experiment in listing stocks on the market for trading, at present confined to Shanghai and Shenzhen. Public share issues at places other than these two cities must be approved by the State Council stock-listing office before it can be listed on Shanghai and Shenzhen securities exchanges.

However, stockholding experiment in Shanghai and Shenzhen should be conducted with boldness and should not be hampered by too many restrictions to obtain as soon as possible the practice and experience for stockholding and stock trading in our country in order to provide better guidance for work in other localities. Commissions for restructuring the economy at all levels of government departments should assume direct control in finding a number of experiment models to serve as example, use the experience of selected units to promote work in the entire area, and guide the work.

Third, handle well the foundation work. First, reform the accounting system of state-run enterprises. Gradually build the accounting and financial systems for joint-stock companies on international standards. Meanwhile, increase efforts at organizing and building and reorganizing a number of recognized accounting and law firms that meet international standards and are reputed and have authority. Without a sound financial and accounting system, without going through auditing by qualified accounting firms and without notarization by law firms, joint-stock companies will not have the necessary conditions for public shares issue and listing for trading. This is a great matter involving the protecting the interest of investors, and must be given high importance. Talent training and propaganda and education of the public are the most important foundation work.

Fourth, study and formulate the management methods for shares issuance and transfer and shares listing at other places. As described above, the relatively notable problems for issuing nonlisted shares to the public are one, how to issue the shares, increase transparency, and prevent inside share allocations leading to new unfair distribution and social instability; and two, the method for shares transfer: For the moment over-the-counter shares trading is not allowed; but we study and formulate soon as possible study and formulate methods for account-to-account trading transactions. Listing in other places, that is listing stocks at Shanghai and Shenzhen Securities Exchanges, involve rules for problematic trading and how administrative organs centralize and coordinate management.

Fifth, actively push for the experiment in investment and cooperation funds, which carries special significance in socialist countries like China. In the West, the usual way is to concentrate scattered capital of various amounts and use it in key investments. This also reduces risks and ensures benefits for small investors because investment and operations have been entrusted to professionals. In China, there will be many good points if we organize individual investors into an investment cooperative fund and make it a legal entity, which then will be operated independently under the leadership of financial institutions, with stock and bond investment and trading handled by professionals, profits and losses brought under a unified account and dividends distributed according to shares amounts. First, it will make market management easier and prevent excessive speculation. Second, it will reduce risks and share trading burdens for

individuals. Third, it turns individual investment into group investment, is akin to cooperatives and belongs to the principle of the development of public-ownership economy and upholding public ownership as the dominant element. Fourth, government workers are allowed to participate in investment cooperative funds and secure the same powers as enjoyed by the rest of citizens. Fifth, after the investment cooperative fund buys stocks and enters the market for trading as a legal entity, other kinds of legal-entity stocks can also enter the market for trading. Sixth, the fund can also be classified as stocks which are publicly issued but not listed, and then can be traded between funds, thus solving the problem of transfers; it also makes management easier. I have conducted propaganda to promote investment cooperative funds for two years. Some localities have started the experiment. Its success will have important significance for developing the stockholding and stock market with Chinese characteristics.

CONSTRUCTION

Investigative Report on Fujian's Housing Market

93CE0006A Beijing ZHONGGUO WUJIA [PRICES IN CHINA] in Chinese No 7, 17 Jul 92 pp 37-40

[Report by Huang Jianfeng (7806 0256 6912), affiliated with the Price Studies Institute of Fujian Province's Commodities Commission: "An Investigation of Fujian Province's Commercial Housing Prices"]

[Text]

I

Commercialized housing management is a new and developing industry in Fujian Province. When Fujian began the multipurpose development of its real estate industry in 1980, it had only eight multipurpose real estate development enterprises, which had grown to 195 by the end of 1990, for an over 200 percent increase in a decade, and a faster growth rate than in any other industry. In this decade, real estate development enterprises in all places throughout Fujian have conducted a series of developments in new zones and upgradings in old cities, which has brought a great change to the appearance of Fujian's cities. It has alleviated the inadequacies in municipal infrastructures and improved the housing conditions of urban residents, while creating a better investment climate for Fujian's opening up to the outside world. Incomplete statistics for Fujian's real estate enterprises in this decade show that they have developed about 7 million sq m of commercial housing alone, which has had the amazing social benefit of resolving housing difficulties for almost 100,000 residents.

Housing commercialization is a key plank in Fujian's urban housing reform. While rationally setting commercial housing prices to appropriately control their current level is an extremely crucial link in the urban housing commercialization process, a severe problem in Fujian's commercial housing development that is in urgent need

of a solution is that commercial housing prices are too high, far exceeding the payment capability of the average employee. This is out of line with China's national condition of the average employee having a quite low income.

While prices were obviously too high even when Fujian first began to sell commercial housing in 1980, they were still not as far out of line with the income of the average employee as they are now. In Fuzhou City in 1981, the selling price of commercial housing was 200-300 yuan per sq m, with individual housing purchases enjoying a preferential 50-60 percent discount, so that a medium-size commercial apartment (referring to a 55 sq m apartment with two rooms and one hallway of medium size and standards and ordinary fittings, and similarly hereinafter) sold for 10,000-17,000 yuan, for a ratio of commercial housing selling price to the annual household income of the average employee at the time of about 8:1. Since then, commercial housing prices have climbed steadily at an average rate of more than 20 percent a year, so that Fuzhou's commercial housing prices per sq m are now generally 850-1,400 yuan and as high as 2,000 yuan, for an average of 1,000 yuan. This means that a medium-size apartment now sells for 60,000-70,000 yuan, which at the 1990 annual household income for the average employee of 4,000 yuan, brings the ratio of housing price to employee household annual income to more than 15:1. In this decade, the annual household income of the average employee increased only about 150 percent, while commercial housing prices shot up over 500 percent. This puts commercial housing prices at 15 times the annual household income of the average employee. This means that it takes all of a household's 15-year income without any other expenses to buy a medium-size apartment, which is obviously an impossible situation. Fujian's high commercial housing prices far exceed the capability of ordinary wage earners, even to the point where over 90 percent of employees, when making household savings and consumption plans, cannot even consider buying housing, even though it is a household's most important asset.

When including factors, such as the relationship of housing to quality of environment, commercial housing prices in some of Fujian's cities are close to those in many developed countries, creating the distortion of low income and high housing price. Many

experts both in China and abroad have noted that to maintain the normal operation of commercial housing forces and provide affordable housing for most members of society, the ratio of a society's standard housing price to its annual household income should be between 3:1 and 6:1. Developed Western countries have a high degree of housing privatization, with over 60 percent of residents in countries, such as the U.S. and Britain, owning their own residences. In these countries, the selling price of a medium-size dwelling is generally about six to eight times the annual income of the average worker. Moreover, they also have housing-purchase credit-provision forms, such as housing mortgages and loans, which can be repaid in installments, most residents are willing to buy their own homes, even though such housing may be their biggest household expense. While it is hard to make a direct comparison because China's national conditions are different from those in Western countries, it is certain that China's housing standards, in areas, such as size, fittings, materials, and environment, are much lower than those in developed Western countries, and that our construction labor costs are also lower. Thus, while China's ratio of commercial housing selling price to average worker annual income should theoretically be roughly the same as in Western countries, this ratio is now a number of times higher at least in Fujian Province than in developed countries. This is particularly disadvantageous both to our housing commercialization and the realization of our aim of providing China's urban residents with eight sq m of housing space each by the end of the century.

II

While there are many factors involved in Fujian's abnormally high commercial housing prices, a detailed analysis shows the following major ones:

1. The prices of all building materials have risen too fast, which has increasingly raised commercial housing building costs.

Since 1980, inflation has repeatedly pushed up the prices of the three major building materials of rolled steel, cement, and lumber, leaving them 210 percent higher in 1989 than in 1980. In addition, the budgeted and real market prices of building materials are still much different, with real market prices being generally more than 50 percent higher than budgeted prices. And construction labor costs have also risen steadily. All of these things have made commercial housing construction and installation costs much higher (see following table).

Fujian Province's Capital Construction Housing Building Costs (Yuan Per Sq M)

Year	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Building Costs	82	96	104	115	130	155	178	202	239	290

2. The increasingly higher costs of land-requisition, demolition, and relocation have had a direct impact on commercial housing building costs.

Commercial housing development requires construction land, which comes from the following two sources:

A. Requisition of farmland: The only way to expand urban space is to requisition farmland. Land is the peasants' most essential means of production and source of livelihood, requisition of peasant land naturally incurs a certain amount of costs, which are mainly as follows: 1. Land compensation fees are used to compensate peasants for losses on all investments in farmland capital construction. 2. Resettlement allowances are used to arrange other means of livelihood for peasants whose land has been requisitioned. 3. Crop compensation fees are used to compensate peasants for the season's seed, fertilizer, and labor losses. While the state has regulations on the compensation standards for these costs, such as compensation at several times the land's annual output value, the current problem is the arbitrary enforcement of these regulations, which is making land requisition costs increasingly higher, adding them all to housing development costs, and sharply increasing building costs. The government now exercises strict control over the requisitioning of farmland, there is very little flexibility in urban land usage, and urban economic growth and population expansion are producing ever greater demands for land, the ones whose land is requisitioned can take advantage of these things to demand increasingly higher prices for their land, by "refusing to give up even an inch of land" until their demands are met, which has made the land requisition compensation regulations almost useless. In Fujian cities, such as Fuzhou, Xiamen, Zhangzhou, and Quanzhou, the compensation costs for requisitioning peasants' land are at least 60,000-70,000 yuan per mu, and even as high as 100,000 to more than 200,000 yuan per mu.

B. Demolition and relocation in old urban districts: Land development companies must pay "demolition and relocation settlement allowances" to the former land users. Demolition and relocation settlement in all cities throughout Fujian is mostly through compensation in kind. That is, development companies return without compensation to the original residents part of the new housing based on the area of former housing that was demolished for relocation, while the rest of the new housing becomes commercial housing that is sold on the market, with the percentage of the new housing that becomes commercial housing being called the development company's "housing-gain rate." This "housing-gain rate" obviously has to reach a certain level before the development company can earn a profit. The maximum "housing-gain rate" in all places throughout Fujian is only 50 percent, meaning that the development company can sell only one-half of the new housing that it builds through demolition, relocation, and renewal in old cities, while having to give the other half back to the original residents who were dislocated. In this way, some residents acquire new housing free, while other residents

buy the other half as commercial housing after a 100-percent increase in price, which is an abnormal "dual-track" housing price system.

Preliminary estimates are that Fujian's current land requisition, demolition, and relocation costs constitute about one-half of its commercial housing construction and installation prices.

3. The increasingly higher indirect costs in commercial housing development have pushed up housing sale prices.

In the commercial housing development process, besides the direct costs of land acquisition, demolition, relocation, construction, and installation, there are other costs, such as major related municipal infrastructures and outside auxiliary facilities. Major related infrastructures are municipal construction projects that serve new residences, such as water, power, and gas supply and road construction, while auxiliary facilities (minor district-level ones) are service networks related to new dwellings, such as stores, grain supply centers, and food markets, as well as schools, child-care centers, police stations, and neighborhood committees. The collection standards for these major and minor related costs are set by municipal governments in all areas, they sharply increase overall costs when they are included in commercial housing costs, so have become an inseparable part of commercial housing construction and installation costs. In cities, such as Fuzhou and Xiamen, they amount to 200-300 yuan per sq m of building area. In addition, the commercial housing development process also includes a variety of costs that are too numerous to mention individually, such as gas-source charges, water and power added-capacity fees, civil air defence fees, fire-fighting fees, public security costs, neighborhood committee fees, street pothole-repair charges, and sidewalk occupation charges. Development companies in Quanzhou must get 22 stamps on their commercial housing construction documents, with almost every stamp requiring a fee. Some places have 30 to 40 types of charges with absolutely no standards, such as the collection of a 1,600-yuan "production-cost fee" for copying a topographic map.

Furthermore, some municipal governments directly assign duties to development companies, such as that they must provide a certain amount of apartments at very low prices each year to families with special housing problems, or that certain authorized units can buy housing from development companies at low token prices. Development companies often transfer these housing costs to commercial housing sales, which is undoubtedly irrational.

4. Too heavy tax burdens and excessive profits for development companies have kept commercial housing prices high.

The major taxes in commercial housing prices are business taxes, construction taxes (changed in 1991 to fixed assets investment orientation regulatory taxes), and

income taxes. These business taxes are collected twice, first based on construction and installation costs at the completion of commercial housing construction, and second according to selling price when commercial housing is sold. These three taxes ordinarily account for about 25 percent of commercial housing selling prices, amounting to 250-300 yuan per sq m of building space, which is almost more than the commercial housing construction and installation cost. In addition, certain cities in Fujian, such as Nanping, are planning to collect a 6 percent title tax from commercial housing buyers, which alone will add about 60 yuan per sq m to the price of commercial housing. The news of this has even caused some who had bought commercial housing in advance to break their purchase agreements with real estate companies.

Excessive development company profits (after-tax retained profits, and similarly hereinafter) are another factor in the sharp increase in Fujian's commercial housing development costs. The most conservative estimates are that many development companies are adding 30 percent in profits to their overall costs, which is raising the selling price of commercial housing about 230 yuan.

A breakdown of the selling price of commercial housing in Fujian Province shows that construction and installation make up only 40 percent of the cost and only 21 percent of the selling price, so that almost 80 percent of the commercial housing price comes from other factors. Even when the cost of land acquisition, demolition, and relocation is included, the cost of acquisition, relocation, construction and installation still make up only 60 percent of overall cost and only 32 percent of selling price. Thus, the key factor in Fujian's too high commercial housing prices is the various other fees and charges.

III

These excessively high and still rising commercial housing prices have obscured the original significance of commercial housing development, as well as presenting many obstacles to urban housing reform.

Despite these high commercial housing prices, which are prohibitive for the average cadre, employee, or resident, commercial housing can certainly still be sold, and sometimes even very easily, in many Fujian cities, particularly in economically developed special economic zones and coastal development cities, such as Fuzhou, Xiamen, Zhangzhou, and Quanzhou. Those who can pay such high prices fall into the following two categories: 1. Individuals with high incomes, who account for over 50 percent of the private housing purchases in coastal cities, and are mainly overseas Chinese, Taiwanese compatriots, and their local dependents. 2. Government enterprise and institution units, which buy housing as public property or have it built for them by development companies, and then assign it to their employees, which is what occurs mostly in interior cities.

While private housing purchases finally turn the commodity of commercial housing from its former type into a consumer good, to reflect the commodity attributes of value and use value, it is quite worth noting that only a few people with high incomes in Fujian now being able to afford such commercial housing reflects a shift of unfair social distribution from the field of distribution to that of consumption, and turns it from a superficial case of money into a substantive matter.

Units buying commercial housing and then assigning it to their employees does not differ from our traditional welfare-type housing system, does not reflect the commodity attributes of housing, and leaves commercial housing an empty shell as a commodity. Moreover, units buying housing and assigning it to their employees produces new irrationalities, because various units have differing economic and financial conditions, which leads to new housing gaps among employees in various units, so that housing inequality still exists. Moreover, units buying high-priced commercial housing means that some state funds are flowing to no purpose into the pockets of commercial housing operators, causing even less rational distribution.

As to the vast numbers of employees, the current further widening of the irrational price relations between commercial housing selling prices and housing rents, which has strengthened the concept that "it is better to rent than to buy," has become a stumbling block to Fujian's current urban housing reforms.

We must make a great effort to reverse the current phenomenon in Fujian of commercial housing prices being abnormally high. We need to strictly control the various costs and fees involved in the commercial housing development process, rectify the phenomena of arbitrary fees and charges in the development and construction process and price chaos in the land acquisition and relocation process, and keep development company profits within reasonable limits.

TRANSPORTATION

Eastern Airlines Sets Up Enterprise in Pudong

OW0810150592 Beijing XINHUA in English
1445 GMT 8 Oct 92

[Text] Shanghai, October 8 (XINHUA)—China Eastern Airlines, one of the six major airline companies in China, today set up its first enterprise in the Pudong new development area in Shanghai, the largest metropolis in the country.

The enterprise, named the China Eastern Aviation Development Company, will act as an agent for international and domestic passenger air transport.

Moreover, the company's services will cover investment in enterprises, wholesale and retail of handicrafts and daily-use articles, and sales of computers and office facilities.

The airlines also opened a new office today in Pudong which has a computer network linked with civil aviation departments all over the world, which will benefit tourists in Pudong.

New Shipyard To Be Built on Chongming Island

*OW0910035992 Beijing XINHUA in English
0129 GMT 9 Oct 92*

[Text] Beijing, October 9 (XINHUA)—China will build Chongming Island, the third biggest island in China, into a new shipbuilding industrial base in the next five years as part of the overall development program of the island.

The China National Machinery Import and Export Corporation (CMC) and the Shanghai Donglian Shipbuilding Engineering Company signed an agreement in Beijing on Thursday [8 October] for setting up a shipyard on the project.

The shipyard, named New Donglian Shipbuilding Engineering Company Limited, will be capable of building 60,000-DWT (Dead Weight Tonnage) vessels and repairing those of 40,000 to 10,000 DWT.

The capacity is expected to be reached within five years.

Investment is expected to total 500 million yuan (91 million U.S. dollars), with half coming from CMC and the rest to be raised by the Shanghai Donglian.

Both CMC and Shanghai Donglian have high expectations for the new venture.

Chongming, also a suburban county of Shanghai, is located at the mouth of the Yangtze River, some 30 kilometers from the city proper.

A CMC official said preferential policies and the geographical location of the island will benefit the venture.

Shekoumao Railroad Tunnel Breakthrough Reported

*OW0810061292 Beijing XINHUA in English
0307 GMT 8 Oct 92*

[Text] Tianjin, October 8 (XINHUA)—The Shekoumao railway tunnel, the first long railway tunnel in China's loess plateau, has been dug through.

The tunnel is part of the Shenmu-Shuozhou railway through which coal in northwestern China will be transported to other parts of China.

The 270-kilometer-long railway is the important trunk line for Shenfu coal field, the largest one in northwestern China.

The Shekoumao railway tunnel is one of the four longest railway tunnels built by the General Railway Engineering Company. Up to now, the company has built over 1,000 tunnels, and more than 600 of them are long

railway tunnels. The tunnels amount to over 1,100 kilometers, accounting for one-ninth of the railway tunnel length in the world.

The company has built a tunnel with the highest altitude in China on the Qinghai-Tibet plateau, the first tunnel in frozen areas on the Greater Hingan Mountains and over 100 tunnels in all kinds of complicated terrain, such as natural caves, and karst areas in northwestern China.

The company has also built a number of highway tunnels and water diversion tunnels.

AGRICULTURE

Ministry Reports on Farm Mechanization Market

*92CE0661B Beijing ZHONGGUO NONGJIHUA BAO
in Chinese 8 Aug 92 p 1*

[Report by Liu Jiye and Zhang Ailian: "Engineering Farm Machinery Department Under the Ministry of Machine-Building and Electronics Industry Announces the Production and Marketing of Farm Machinery in the First Half of 1992"]

[Text] The Engineering Farm Machinery Department under the Ministry of Machine-Building and Electronics announced in a news briefing on 7 July that the situation in the production and marketing of agricultural machinery was good in the first half of this year. All farm machinery enterprises firmly seized the opportune time when market demand was increasing and actively organized production to meet demand.

In the first half of the year, farm machinery manufacturing enterprises created a total industrial output value of 22,456 billion yuan (fixed price), constituting 65.6 percent of the annual plan, and an increase of 25.3 percent over the same period last year. Compared with the corresponding period last year, in terms of total industrial output value created by various provinces, municipalities, and autonomous regions in the first half of this year, with the exception of Qinghai Province, all experienced increases to varying degrees. All 16 major farm machinery products, except machine-driven harrows, have fulfilled over half of the annual plan, of which the internal-combustion generating set, machine-driven equipment for plant protection, tea processing equipment, and pumps for farm use fulfilled the annual plan for the entire year ahead of schedule. Compared with the same period last year, the production of 12 products, including tractors, internal-combustion engines, internal-combustion generating sets, machine-driven planters, machine-driven equipment for plant protection, combine harvesters, and farm-use transport vehicles witnessed increases but that of machine-driven plows, machine-driven harrows, farm-use big trailers, and fodder grinders dropped to some extent.

In the first half of this year, farm machinery manufacturing enterprises registered a sales output value of

21.074 billion yuan (current price), a 26.1 percent increase over the same period last year, with the sales rate being 94.9 percent. The management system of farm machinery companies all over the nation completed a sales volume of 13.953 billion, a 22.9 percent increase over the same period last year. The year-end inventory was 4.691 billion yuan, an increase of 14.2 percent over the same period last year, but a drop of 5.44 percent from the 4.961 billion yuan at the beginning of the year. The major products sold included 29,800 large and medium-sized tractors, 269,300 hand-held tractors, 331,500 small four-wheeled tractors, and 905,400 power-driven machinery for farm use, which saw a slight drop while the remaining three products registered an increase of 12.6 percent, 2.9 percent, and 17.6 percent respectively from the same period last year.

In the first half of the year, the export of farm machinery products was stable. The China Engineering and the Agricultural Machinery Import and Export Corporations earned \$25.22 million by exporting the goods they manage themselves, which consisted 50.4 percent of the annual plan, a 14.32 percent increase over the same period last year.

In the first half of the year, the production and operation of farm machinery were mainly characterized by the busy season of the farm machinery products market taken place ahead of time, and the emergence of the situation in which the market was neither dull in the slack season nor brisk in the busy season, and there was little difference between the two seasons.

Because agriculture suffered natural disasters last year, this year the state adopted various effective measures to strengthen agriculture, and made appropriate arrangements to secure investment funds, agriculture loans and the supply of goods and materials at an earlier date. The marketing of farm machinery products was brisk at the beginning of this year. In the first quarter of the year, the total industrial output value and the sales volume of farm machinery products increased by 31.1 percent and 32.2 percent respectively. Production and marketing were not dull in the slack season. The second quarter of the year should have been the golden season for the production and marketing of farm machinery, but beginning in April, there was a drop in both production and marketing, and at the end of June, the growth in total output value and the sales volume dropped to 25.3 percent and 22.9 percent. Both production and marketing were not brisk in the busy season.

Most farm machinery products were better than last year, particularly the caterpillar tractors produced by the Luoyang No. 1 Tractor Plant, which are the most popular goods sold in the market at present. The plant turned out 2,065 caterpillar tractors in March, a monthly record high. It produced 11,208 caterpillar tractors in the first half of the year, an increase of 19.8 percent, but they were still far from meeting the needs of the users. Moreover, 252,300 items of machine-driven equipment for plant protection, 999,900 farm-use pumps, and 3.862

billion worth of tractor fittings have been turned out so far, an increase of 74.7 percent, 22.9 percent, and 9.1 percent respectively.

Products turned out by some small tractor and diesel engine plants that are able to carry out mass production had stable quality, and their market share was large. In the situation of supply exceeding demand as a whole, they still maintained superiority in the areas of thriving production and marketing, big expansion, small inventory, and great competitiveness. For example, the Changzhou Hand-Held Tractor Plant, the Weifang and Shijiazhuang Small Four-Wheeled Tractor Plant, and the Changzhou Diesel Engine Plant produced 54,900 hand-held tractors, 63,000 and 60,100 small four-wheeled tractors, and 207,400 diesel engines, increases of 5.8 percent, 14.5 percent and 28.8 percent, and 24.4 percent respectively over the same period last year, and the sales of their products increased by 5.9 percent, 13 percent and 33.7 percent, and 29.1 percent.

The situation of some loss-making enterprises took a turn for the better. In the first half of the year, the Tianjin Tractor Plant produced and marketed 5,108 and 5,355 large tractors, increases of 23 percent and 16 percent respectively over the same period last year. It turned from a loss of 1,772,100 yuan in the first half of last year into a profit of 2.096 million yuan. The amount of losses incurred by the Shenyang Tractor Plant was reduced from 14.6 million yuan in the first half of last year to 7.699 million yuan, a 47.3 percent reduction in its total loss. The amount of loss of the Harbin Tractor Plant dropped from 7.83 million yuan in the first half of the year to 3.97 million yuan, a 49.3 percent fall in its total loss.

The current main problems facing production and operation are inadequate circulating funds for production, and heavy burdens in loan interest payments. The Shijiazhuang Tractor Plant paid more than 4.5 million yuan in interest in the first half of the year, and the profit rate of output value was only 1.28 percent. Steel prices were brought into the orbit of market prices, in some areas, the price of one cubic meter of cold-rolled steel sheets rose from 2,700 yuan per ton to 3,600 yuan per ton; that of round bars rose from 1,000 yuan per ton to 2,500 yuan per ton; and that of aluminum rose from 8,500 yuan per ton to 9,500 yuan per ton. The upward price spiral showed a momentum of continued soaring, and enterprise burdens will become heavier and heavier.

Moreover, border and barter trade were brisk. Large quantities of the large caterpillar tractors and combine harvesters from the member nations of the Commonwealth of Independent States flew into domestic markets in China. There were 377 combine harvesters stored in the Siping Harvester Plant at the end of the first half of the year, an increase of 113 percent from the beginning of this year.

Overall, the economic efficiency of the agricultural machinery industry is still low. From January to May,

profits created increased by 38.4 percent, mainly because the growth was generated by the rate of return of a few key enterprises, the No. 1 Tractor Plant, the Beijing Internal-Combustion Engine Plant, the Shanghai Diesel Engine Plant, and other plants. Overall economic efficiency showed no significant improvement. The profit rate of output value was just 2.91 percent, 2.19 percentage points lower than that of the machine-building industry. The profit rate of sales income was only 2.82 percent, 2 percentage points lower than that of the machine-building industry.

Tobacco Industry Foreign Exchange Earnings Increase

OW1310085892 Beijing XINHUA in English
0648 GMT 13 Oct 92

[Text] Beijing, October 13 (XINHUA)—According to an official with China's State Tobacco Monopoly Administration, from January to September this year the industry earned 270 million U.S. dollars worth of foreign exchange—equal to the total earned last year.

Exports of cigarettes alone earned 165 million U.S. dollars, up 23 percent compared with the same period last year.

According to the official, the tobacco industry has in recent years shifted its focus onto readjusting the product structure and stressing quality, while phasing out the production and sale of inferior products.

The administration has taken a series of measures to rectify the tobacco market, including splitting up, merging or closing down enterprises producing inferior cigarettes.

The official said, the administration has carried out the "Law on Tobacco Monopoly" issued by the State Council in a down-to-earth manner and actively cooperates with the public security organs, the administration of industry and commerce and taxation departments to crack down severely on smuggling as well as the production and sale of fake tobacco products with counterfeit trade marks.

According to a sample survey conducted on the quality of cigarettes in the first half of this year, the qualification rate has reached 93.7 percent, nearly one percentage point up over the corresponding period of last year.

Improvements have also been made in the planting and drying processing of tobacco leaves.

Meanwhile, the degree of maturity and redrying quality of tobacco leaves as well as packing and after-sales services have improved greatly.

Now, 65 brands of Chinese cigarettes are exported to 26 countries and regions all over the world. Some famous brands such as "Zhongnanhai" and "Changle," to which elements of Chinese medicinal herbs are added, are well received by foreign customers.

Animal Husbandry Production Up in North

OW1210143992 Beijing XINHUA in English
1358 GMT 12 Oct 92

[Excerpts] Beijing, October 12 (XINHUA)—Inner Mongolia, Xinjiang, Qinghai and Gansu, the four major pastoral areas in northern China, have recorded the ninth year of record livestock production.

The latest official statistics show the four regions registered 194 million head of livestock by the end of June, six million more than 12 months ago.

Local officials said that the quality of animal by-products has been upgraded and economic returns raised remarkably, all with increased output. [passage omitted]

After collective livestock was contracted out to herdsmen in 1983, northern China contracted out the pastureland to households and issued certificates for long-term use rights. The contract system has encouraged herdsmen to invest in the grassland.

In the Inner Mongolia Autonomous Region—a pioneer in implementing the contract system—herdsmen have pooled over 200 million yuan in improving the grassland since then. From 1987 the 38 counties susceptible to natural disasters have erected barns and shelters for livestock, reducing the mortality of weak and sick animals from 10 percent to four percent.

Herdsmen in Qinghai Province invested over 40 million yuan in construction of fenced grassland, sheds, barns and feed centers last year, compared to 3.6 million yuan in 1985.

Modern techniques have replaced outdated skills or experience. In the Hulun Buir League of Inner Mongolia, a woman named Erdungui has succeeded in breeding two litters a year under the guidance of technicians, compared to one spring litter in the past. Her example has been popularized rapidly. The measure has increased output and economic returns while reducing feed shortages because of an altered mix in the animal population.

Moreover, cross-breeding, mechanical shearing, controlling animal diseases and wintering sheep in heated sheds have been disseminated widely in pastoral areas. In Xinjiang, fine breeds of sheep, mainly the merino, now number 13.9 million, accounting for 60 percent of the sheep population there.

Herdsmen also show an awakening sense of a commodity economy. For instance, many herdsmen were once proud to keep large flocks of livestock all the year round. Now, they understand the value of the flock lies in the rational combination of female and young animals and marketing the mature ones in time. Xinjiang raises 13.5 million lambs and calves, slaughters 12.4 million head of livestock and markets 7.1 million head each year now, presenting 70 percent, 176 percent and 198 percent increases over figures for 1978. As a result, the per capita annual income of herdsmen has doubled to 580 yuan.

Local governments have also adopted measures to promote shifting animal husbandry from the conventional pattern to a modern one, including multi-channel circulation of animal by-products, encouraging herdsmen to participate in circulation and flexible pricing.

Shandong Official Urges Diversified Farming

SK0910002192 Jinan Shandong People's Radio
Network in Mandarin 2300 GMT 7 Oct 92

[Text] The provincial party committee and government held a meeting in Dezhou from 5 to 7 October to exchange the experiences in accelerating the economic development of the western and northern parts of the province. Gao Changli, deputy secretary of the provincial party committee, attended and addressed the meeting.

Gao Changli pointed out: In the economic development for some time to come, the western and northern parts of the province should embrace two new ideas, effect three changes, and gradually realize three reverses. Embracing two new ideas means that they should abandon the idea of the small-scale peasant economy characterized by one-crop farming, embrace the concept of large-scale agriculture, use this concept to guide agriculture, and take the new road of achieving all-round development in farming, animal husbandry, sideline production, fishery, good-quality, high-yields, and high efficiency; and that they should abandon the idea of the product economy that aims at self-sufficiency and instead use the idea of the commodity economy to guide agriculture. The three changes are to gradually change the habit of leading economic work through the means of administrative order into the method of leading economic work through economic means; to gradually change the way of thinking compatible with the product economy into the way of thinking and the way of leadership compatible with the socialist market economy; and to gradually change the practice of putting primary industry in a predominant position in the rural industrial structure into one of putting the secondary and tertiary industries in a predominant position. The three reverses are, in the rural industrial structure, to gradually reverse the ratio of the primary industry to the secondary and tertiary industries from 7 to 3 into 3 to 7; in the input of rural work force, to gradually reverse the ratio of the work force invested in land to the work force invested in the secondary and tertiary industries from 7 to 3 into 3 to 7; and in the structure of the per-capita income, to gradually reverse the ratio of the income from the primary industry to the income from the secondary and tertiary industries from 7 to 3 into 3 to 7.

Gao Changli said: The ways for the western and northern parts of the province to achieve a breakthrough in their economic development as a whole can be summarized as taking market demand as the guide, expanding the diversified economy, carrying forward advantages to achieve development in all sectors, and gradually

achieving coordinated production, industrialization, specialization, and modernization.

He pointed out: We should regain our vigor through reform. Taking Yangxin as an example, we should accelerate institutional reform and do a good job establishing the mechanisms for the operation and management of the commodity economy. We should succeed in establishing the market system. Government should cultivate markets, markets should guide enterprises, and enterprises should adapt themselves to markets.

Qinghai Promotes Field Contract System for Livestock

93CE0001A Xining QINGHAI JINGJI BAO in Chinese
20 Aug 92 p 1

[Report by Zhong Long (0112 7893) and Zhi Qiang (1807 1730): "Field Contracting Is Being Actively Perfected in the Pastoral Areas of Qinghai Province"]

[Text] Various prefectures and counties in the pastoral areas of Qinghai Province are actively trying to push forward and perfect the field contract system, thus taking new steps to continue reform of pastoral areas.

Since the Third Plenary Session of the 11th Party Central Committee, Qinghai Province has universally been carrying out in its pastoral areas a production responsibility system to change production and management mechanisms, and raising the levels of productive forces with "fields maintain public ownership, contracted management, prices for livestock are fixed, and every household possessing and raising livestock." Because this new mode of production and business is in keeping with the developmental level of productive forces of the pastoral areas, the broad masses of herdsmen can act on their own decisions when it comes to production and management. Their enthusiasm for production has been further stimulated, and animal husbandry has enjoyed stable development throughout the province. Along with the development of production, the broad masses of herdsmen put forward new requests directed against the modes of contracting fields to groups and tent rings. They requested one after another that fields for winter and spring, and those for summer and autumn be contracted to individual households, truly embodying the separation of the ownership and management of fields. This will be more conducive to arousing enthusiasm for making bold investment in the construction of grasslands on the part of the masses of herdsmen while they can set their minds at rest. In accordance with the wishes of the masses of herdsmen, Haibei, Guoluo, Haixi, and Hainan Prefectures have one after another started to try out the practice of contracting fields to individual households. In light of its own circumstances, Haibei Prefecture actively carried out a responsibility system—"one contract plus four dependencies," under which fields are contracted out to individual households, the number of livestock, output, tasks for turning in livestock products, and fees for using fields and various

withdrawals and deductions all depend upon the amount of grass produced; and the construction of a socialized service system. By the end of June this year, the three counties of Gangcha, Menyuan, and Haiyan had fulfilled their all-round work in "one contract plus four dependencies" for the winter and spring fields. The prefecture plans to complete the contracting of the all-season fields by the end of this year. In line with the requests of the masses of herdsmen, Yushu Prefecture proposed "Opinions on Practically Carrying Out the Household Contract Responsibility for Fields," which was welcomed by the masses of herdsmen. In light of implementing the right to the use of grasslands, the counties of Chengduo, Nangqian, and Yushu issued certificates for using fields. As a result, the work of contracting fields to individual households was fulfilled. The three prefectures of Huangnan, Hainan, and Guoluo, in combination with the work of "socialist education" in pastoral areas, conducted an all-round examination of the field contracts, checked and ratified work, conscientiously worked on the issuance of certificates for the use of fields involving "one contract plus four dependencies," through the use of economic, legal, and administrative means, applied contracting to individual households and scientific management, and further mobilized the enthusiasm of the

masses of herdsmen for investment, labor, construction, and protection of grasslands.

After fields were contracted out to individual households, the sense of field inputs, sense of values, sense of returns, and consciousness of commodities on the part of the broad masses of herdsmen was strengthened. Since 1990 Haibei Prefecture has experienced a big increase in funds the masses of herdsmen used for the construction of grasslands, more than 3,000,000 yuan every year. This year, funds raised by herdsmen in this prefecture for the construction of grasslands accounted for 64 percent of the total investment. By mid-July funds raised by herdsmen in Qinghai for the construction of grasslands exceeded 8,000,000 yuan. Planned tasks all have been overfulfilled in the areas of fenced fields, livestock stables, and areas for artificial grass growing. Herdsmen in the counties of Tianjun, Qilian, and Gonghe even spent hundreds of thousands of yuan building some new type warm sheds and sheep huts that are made of stones and wood, or bricks and wood, and whose plastics, white cloths, and braided materials have the characteristics of daylighting and warmth insulation. As a result, the construction quality of basic facilities in the grasslands of our province has mounted on a new flight of steps.

Liberalized Measures on Handling Economic Crimes

92CM0412A Hong Kong LIAOWANG [OUTLOOK]
OVERSEAS EDITION in Chinese No 35,
31 Aug 92 pp 14-15

[Report by Shi Chaoxue: "Officials in Charge of China's Supreme Court and Supreme Procuratorate on How To Handle Economic Crime Cases"]

[Text] Recently, the Supreme People's Court and Supreme People's Procuratorate jointly proposed that there be further emancipation of the mind and renovation of ideas, that the criterion, as proposed by Deng Xiaoping, of whether or not benefiting the development of socialist social productive force, the strengthening of the comprehensive capabilities of the socialist country and the improvement of people's living standards be made the point of departure and basis of the trial and procuratorial work. To this end, the "two supremes" formulated some new measures with regard to the fight against embezzlement, bribery and other economic crimes. Recently, the vice president of the Supreme People's Court Lin Zhun and the deputy procurator-general of the Supreme People's Procuratorate Xiao Yang elaborated on this issue.

Lin Zhun: In handling economic crime cases, we must be both resolute and cautious, and take accuracy as the guiding principle. It is necessary to distinguish between criminal and noncriminal activities, sternly punishing economic criminals, while providing real, effective protection for the reform and opening to the outside world.

Under the situation of accelerating reform and opening up, it is surely necessary to adhere to the principle of "making facts the basis and the law the criteria" in judging whether an act is legal or illegal, constitutes crime or not, and calls for criminal investigation or not. At the same time, it is also necessary to take into account current realities in China and adopt a cautious approach based on seeking truth from facts, according to the spirit of Deng Xiaoping's statements made during his southern inspections.

With the continuation of reform and opening up, and with the growing liveliness of economic life, the situation of economic crime cases will continuously change, and will become more complicated. Thus, it is very difficult to distinguish between criminal and noncriminal activities. Now we have proposed some guidelines on making such a distinction, but they cannot remain unchanged and will have to be perfected on the basis of considering new situations.

Having made the distinction between criminal and non-criminal activities, it is also necessary to pay great attention to the ways of handling cases as well as the overall social and economic effects. Economic crime cases often involve production units and science and technology departments. If, in handling those cases, we do not take account of the special characteristics and

complexities of commodity markets, technology markets, financial markets, labor service markets, and the real estate markets, of the interrelationship and operational continuity between production, supply and marketing, and of the special characteristics of the activities of technology development, consultation, transfer and service, we will create unnecessary losses, thereby deviating to some extent from the right direction of the fight against economic crimes. Therefore, it is necessary to emphasize:

Do not lightly make cases criminal, if the relevant policies and laws do not have clear provisions, or if some past provisions are no longer appropriate for current realities resulting from reform and opening up.

Do not mete out punishment hastily, if it is for the time being difficult to distinguish between criminal and non-criminal activities. It is advisable to consult people from various circles, conduct careful analysis and research, and make sure that the nature of the activities in question is ascertained correctly.

It is not always necessary to give prison sentences to those who have committed crimes, if the crimes are light in nature, if they have repented in a satisfactory manner, and if in the past they always behaved well, did outstanding work, or were essential personnel or scientific and technical personnel in production operations and enterprise management. It may be advisable to give suspended sentences, or give no sentences, returning them to society and having them educated and reformed, thereby facilitating production operations and scientific research work.

Currently, there have often been cases of unnecessary damages to the interests of the state and the people due to gross irresponsible bureaucracy and neglect of duty on the part of some government workers. With regard to such cases, courts at all levels must resolutely pursue criminal responsibilities in accordance with the law. However, it is necessary to carefully distinguish between cases of crimes of gross neglect of duty and cases of damages to state or collective property due to mistakes caused by lack of experience in the process of carrying out new experiments relating to reform. Mistakes relating to the reform should not be made criminal cases; in this way the enthusiasm of those who push reform and dare to take risks will be protected.

Xiao Yang: Procuratorates of all levels must continue to focus on investigating and prosecuting embezzlement and bribery cases, especially the big cases, and consider such work the procuratorates' most important, direct service for economic construction.

Currently, we are in the process of getting rid of old, outmoded ideas that no longer suit the needs of the new situation of reform and opening up. The Supreme Procuratorate is now reviewing the judicial interpretations

currently applied and other documents relating to procuratorial work, and will resolutely repeal those interpretations and documents that no longer suit the needs of the situation of reform and opening up.

At the same time, in handling cases, we should resolutely protect those who have contributed to reform and opening up, and to reinvigorating the economy, but have also committed some mistakes, especially scientists and technical personnel. It is necessary to protect income and legal compensation that scientists and technical personnel get from second jobs, and to pay attention to being cautious in handling cases involving scientists and technical personnel; it is necessary to enhance investigation and research work, and consult people of all circles, so as to avoid being crude in handling those cases. In handling accusations involving scientists and technical personnel who have done outstanding work, it is necessary to conduct timely investigations; based on those investigations, it is necessary to mete out punishments in a cautious, appropriate manner to those who have committed crimes; to timely clear those under accusation of the relevant charges and eliminate the damage to their reputation among certain circles when the accusations are found unsubstantiated; and to take strong, firm measures against those who have made false accusations to frame other people, when the accusations are found to be false and based on an intention to frame people.

At present, it is necessary to correctly handle cases of embezzlement and bribery involving small amounts of money, and be careful in handling "marginal cases" and "borderline cases" involving activities on the borderline between the criminal and noncriminal. We should handle cases involving money of small amounts in several ways: First, it is necessary to prosecute those whose actions constitute crimes and who should thus be punished according to the criminal law. Second, it is

necessary to exempt, in accordance with the law, from prosecution those whose cases involve money in amounts of over 2,000 yuan but under 5,000 yuan, and who confess voluntarily and have done good work to atone for misdeeds or behave in a repentant way while cooperating in handing over the ill-gotten gains; in such cases, we should let their respective work units or supervisory authorities mete out disciplinary actions. Third, it is necessary to dismiss, in accordance with the law, cases involving "activities that are obviously not serious in nature, did not result in serious damage, and are not considered criminal," and let the work units and supervisory authorities involved handle such cases. With regard to small cases, it is necessary not to formally file the cases, if the activities involved are found not to constitute crime in the investigations before formally filing the cases. Those "marginal cases" and "borderline cases" should be handled in a slow rather than fast manner and in a lenient rather than severe manner. On the basis of taking into account the specific circumstances of different cases, it is necessary to dismiss some cases, and to suspend final decisions and conduct further investigations in some other cases. It is especially important not to arrest people lightly, and not to decide on the criminal nature of the relevant activities in a hasty manner. Especially, in handling cases of neglect of duty and responsibility for serious accidents that involve important scientific and technological questions, it is necessary to conduct careful investigation and go over the cases several times, so as to strictly distinguish between crimes and mistakes committed in the process of exploration relating to reform and opening up and in the process of conducting scientific experiments. It is necessary to protect those who have dared to experiment and innovate in the process of reform and opening up, and have been subjected to false accusations because of their experiments and innovations; it is also necessary to investigate the cases of false accusations and punish those who have made false accusations.

'Roundup' Views Beijing-Taipei Technical Cooperation*OW0110114592 Beijing XINHUA Domestic Service in Chinese 1406 GMT 25 Sep 92*

["Roundup" by reporter Wan Wei (3769 5588): "To Open Up a Field for Mutually Supplementary and Mutually Beneficial Cooperation"]

[Text] Beijing, 25 September (XINHUA)—The China Financial Electronics Company and Taiwan's Lingkang Communications Company Limited signed a contract the other day, in which the former agrees to purchase a ground satellite communications system from the latter. The system, developed by the Lingkang Company, is to be used to establish a nationwide satellite communications network for financial data of the People's Bank of China.

The system, with data and message traffic functions, is the brainchild of scientific and intelligent personnel on the two sides of the Taiwan Strait. This is the first cross-strait cooperation in the field of satellite communications. It is also a manifestation of the progress that has been made in scientific and technological cooperation between the two sides of the Taiwan Strait.

Scientific and technological cooperation between Beijing and Taiwan has become closer in recent years, with a marked increase in Taiwan-funded high technology enterprises in Beijing. By the end of August, the number of newly established Taiwan-funded enterprises in Beijing was over 150, with one-third of them engaged in high-tech projects.

At present, more than 30 Taiwan-funded high technology enterprises, with 16 of them engaged in electronics, are located in Beijing's Zhongguan village—the first advanced technology development zone approved by the State Council. These enterprises—firms invested in by Taiwan businessmen and staffed with local technicians or firms with scientific and technological personnel from the two sides of the Taiwan Strait jointly engaging in research and development—have achieved gratifying

results. The Beijing Diguan Computer Company Limited, the first Taiwan-funded computer software firm in Beijing, mainly produces an electronic editing system—Diguan HC-2000. The products combine the scientific advantages of both sides, that is, Beijing's software technology, particularly that of Chinese character processing, and Taiwan's hardware technology, particularly that of systematic function. Since their first introduction into the market in November 1991, the products have been highly appraised by companies engaged in the same trade and their users alike. The company also was a winner in a bid invited by the State Education Commission at the end of 1991 for a printing system developed through a World Bank loan.

In the light of supplementing each other, the scope of scientific and technological cooperation between Beijing and Taiwan has become wider. The Lingkang Company is now conducting another inspection in Beijing's Zhongguan village for establishing another high technology enterprise. Meanwhile, Taiwan-funded enterprises in coastal areas have shown strong interest in recruiting personnel from Beijing. A manager of a solely Taiwan-funded enterprise in Fujian candidly said that he was very impressed by Beijing's technical personnel.

Why are Taiwan businessmen interested in Beijing's technical personnel? The answers provided by Taiwan businessmen are as follows: 1) Beijing is a place where many talented people are available. It has more than 80 universities and colleges, 562 scientific research organizations, and a large contingent of scientific and technological personnel totalling 650,000 people. 2) Beijing's scientific and technological personnel are of good quality and high standard. Having received a fine higher education and rigid basic training, they are eager to have an opportunity to fully demonstrate their talents.

Future cross-strait scientific and technological cooperation looks promising. As Lingkang Company vice president Xao Zhongyui put it, "one thing is most important, that is, to be mutually supplementary and mutually beneficial. This is a principle conforming with the inevitable trend of historical development."

Editorial on Importance of Technical Innovation

92CE0711B Taipei CHING-CHI JIH-PAO in Chinese
28 Aug 92 p 2

[Editorial: "Energetically Carrying Out Technological Upgrading Is Our Only Way To Survive"]

[Text] In view of the shocks to us resulting from regional integration in the world economy, or of the hollowing out of domestic industries resulting from Taiwan businesses investing on the mainland, or of the pressures on us resulting from the enhancement of economic and trade cooperation between South Korea and the CPC after the establishment of diplomatic relations between the two sides, or of the desire of making our country a modern industrialized country before the end of the 20th century, we can be successful in the 21st century only by accelerating the development of science and technology and by promoting industrial upgrading. Executive Yuan president Hao Po-tsun pointed out after visiting the Hsinchu Science Zone and the Industrial Technology Institute, developing high-technology industries to achieve industrial upgrading is our only way to survive.

Basically, developing high technology to raise technical standards can be done in two ways: One is to rely on our own to carry out scientific and technological research and development; the other is to rely on introductions from other countries. In view of the present situation in Taiwan, it is not only necessary to use the two approaches at the same time, but also to energetically pursue both approaches. To raise the industries' technological standards, in addition to the government's promulgation of the "Provisions on Promoting Industrial Upgrading" which provides various incentives for technological research and development, and in addition to the government's providing support for large-scale research and development plans in its budget, there should also be spontaneous, voluntary increases of investment on the part of businesses for research and development. According to an investigation conducted by the National Science Commission, in the manufacturing sectors of our country, research and development expenses account for less than 1 percent of the total operational expenses. This figure is far smaller than the 3 percent observed in other industrialized countries. Moreover, in terms of such high-technology industries as the information industry which requires large amounts of research and development expenses, research and development expenses account for as much as around 10 percent of overall expenses in Japan, but only less than 3 percent in our country. The expenses in this regard are obviously too low and thus must increase.

In terms of introducing technologies from abroad, in addition to giving importance to the strengthening of the cooperation on science and technology for industry between the two sides of the strait currently under discussion, we also believe that introducing first-grade technologies of the world from foreign businesses through technological transfers can not only reduce

research and development time to raise efficiency, but also bring in investment which would have a pioneering effect in the present situation of weak domestic investment desires. If our cooperation partners can be made to set up their technology research and development centers in Taiwan, this can lead to continual technological innovations. In addition, domestic research and development work is also enhanced, then our technological standards can be expected to be raised in the near future; in this way we can keep a superior position among countries of similar development levels.

Recently, because of rising domestic production costs, large first-grade firms in Europe and the United States have begun to pursue global operation strategies and alliances. They are going overseas to seek cooperation partners to enhance their international competitiveness. In this regard, Taiwan's industrial technological standards are just between those of highly industrialized countries and those of the developing countries. Also Taiwan is equipped with strong producing, manufacturing capabilities and abundant capital, and has profound and extensive influence in the Asian market. If the development of economic and trade relations between the two sides of the Taiwan Strait can facilitate those large firms' efforts to develop market on the mainland, then Taiwan can become a main target in those first-grade European and American firms' search for cooperation partners.

Developing high-technology industries is the government's established policy. Of high-technology industries, the information industry has the largest potential of development in Taiwan. The information industry started to develop in Taiwan less than 20 years ago, but has developed very rapidly due to the joint efforts made by the government and business. In the past 15 years, the output value of the information industry has increased by more than 300 times, an average annual growth rate of nearly 50 percent. Last year, the output value reached \$6.9 billion, thereby making Taiwan the seventh largest producer of information-related products in the world. Last year the amount for exports of information-related products was \$6.5 billion, representing 3.1 percent of the world market for information-related goods, and making such products the third largest category of export products in Taiwan. However, our information industry mainly relies on imports for the raw materials and parts needed, the relevant rate of value addition is much lower compared with those of advanced industrialized countries. For instance, with regard to our information industry's two main products of microcomputers and personal computers, the main frames used (constituting 40 percent of the total value of output of the information industry) rely totally on imported central processing units [CPU]. In the past, the market for CPUs used in all the personal computers in the world was monopolized by Intel Corp. of the United States. Therefore, there often occurred situations of insufficient supply of CPUs. A few years ago, the production of personal computer firms in our country was affected for a time due to insufficient

supply of CPUs. However, in recent years, several large firms in the world have begun producing CPUs. To ensure continued overseas market development, looking for overseas cooperation partners has become an important counteracting strategy to Intel Corp. Thus, it was recently reported that Intel Corp. discussed with Sheng-tung Computer Institution of Taiwan on CPU co-production plans that would require investment in the amount of NT\$25 billion. Last year Taiwan used over 7 million CPUs in the production of main frames used in microcomputers and personal computers, and therefore plays a significant role in the world. Domestic demand alone would be enough to sustain one or two large firms specialized in producing CPUs. But domestic businesses have not yet acquired designing capabilities for CPU production, and are even less capable of shouldering the legal costs resulting from law-suits initiated by adversaries on the ground of copying. Thus, achieving technological transfers from such big firms as Intel Corp. should be considered the best way of developing the information industry in Taiwan.

Developing high-technology industries should not just rely on domestic businesses voluntarily taking the initiative to enhance research and development; an even better way may be to introduce first-grade high-technology industry businesses from other countries into Taiwan so as to develop cooperation and achieve technology transfers which may then lead to investment and production. Therefore we hope our businesses will take advantage of our superior conditions and try hard to attract first-grade high-technology industry businesses in the world to come to Taiwan to engage in cooperative projects. The government should provide effective cooperation, and it is even worthwhile to provide special preferential treatment to businesses of those high-technology industries critical to upgrading our overall industrial technological standards. Nevertheless, special preferential treatments should be given only under the following two conditions: First, the research and development centers for the relevant critical technologies are established in Taiwan; second, profits made during the period of special preferential treatment must be reinvested in Taiwan and cannot be repatriated. Only in this way can Taiwan, in the not too distant future, "build itself into an important base of science and technology in the Asian-Pacific region," as President Li hopes. This is the right approach which involves enhancing the economic and trade cooperation between Taiwan and the mainland and trying to hold a leadership position of superiority, while keeping the roots in Taiwan.

Editorial Calls for Comprehensive Investment Policy

92CE0711A Taipei CHING-CHI JIH-PAO in Chinese
27 Aug 92 p 2

[Editorial: "We Need a Comprehensive Investment Policy"]

[Text] Because of the shocks resulting from the establishment of diplomatic relations between South Korea and the CPC, views on Taiwan business investment on the mainland are polarized: According to one view, the CPC is trying to isolate and hurt us diplomatically, therefore it is necessary to suspend investment on the mainland; it has even been suggested that investment be replaced by trade. According to another view, after establishing diplomatic relations with the CPC, South Korea will gain an economic advantage on the mainland; thus, if we do not actively advance onto the mainland, this will hurt us in our economic competition with South Korea.

The Fourth Joint Sino-Mexican Economic Conference just concluded. At the conference, delegates from both sides expressed the view that as the negotiations between the United States, Canada and Mexico on the north American free trade area have resulted in agreement, to invest in Mexico will be a short-cut through which Taiwan businesses can advance into the north American free trade area. The president of the Association for Promoting Industry and Commerce Ku Chen-fu also said: "Investing in Mexico is better than investing in Southeast Asia."

After a trip to Vietnam to discuss matters relating to establishing offices there, the deputy Economics Minister Chiang Ping-k'un said that Vietnam is now in the process of economic reconstruction, that Taiwan businesses have made more investment than those from any other country, and that China and Vietnam should be able to expand economic and trade exchanges. Moreover, after an investigation mission to Southeast Asia, he also made statements to the effect that the investment environment in Malaysia has greatly deteriorated. Such statements aroused reactions in Malaysia.

The mood indicated by the reports and statements discussed above relating to our businesses investing abroad is clearly different from the mood indicated by reports on domestic investment. The weak inclination for domestic investment has been worrying the financial and economics authorities who have established an inter-ministerial "investment promotion group." At a cabinet meeting President Hao said: "All government departments should adopt comprehensive measures to stimulate investment."

Surely, we need an integrated, comprehensive investment policy; otherwise we will not only appear to be trying to cross the river by groping the stones, but also be self-contradictory in many places. For instance, at one moment we encourage businesses to engage in overseas investment, but at the next moment we also have doubts about such investment and worry about the hollowing out of domestic industries. This issue involves the question of whether domestic investment and overseas investment tend to crowd out each other. It is difficult to avoid errors if one makes conclusions before conducting analysis and study.

The so-called investment policy refers to all the measures to straighten out the investment environment to facilitate investment. It can be seen from the preceding discussion that businesses can choose to invest overseas and foreign businesses can come to this country, efforts to explore ways of improving domestic investment environment and domestic investment desires can result in comprehensive investment stimulating measures only when made on the basis of assuming a framework of an open system. In other words, in the past, we were a net capital inflow country, measures on investment environment and the general investment policy could be largely based on considerations of domestic factors. Now we are a net capital outflow country, and a comprehensive investment policy must be based on considerations of both domestic and overseas factors.

As for overseas investment, what are really the differences between the ways in which Taiwan businesses invest in North America, the European Common Market, Eastern Europe, Southeast Asia, and on the mainland? What are the risks involved? What can the government do for business? Only after these questions have been answered, will the government be able to have a rather clear stand in its policy towards overseas investment. Only then will the government have a basis for deciding on whether to approve or disapprove businesses' applications. Only by viewing Taiwan businesses' mainland investment from this perspective and by using such a perspective to guide the decision on whether to adopt the method of "listing the positive points" or the method of "listing the negative points" or a mixed method for handling the applications, will the decision be consistent with a policy on mainland investment based on international considerations, rather than one based on considerations of the requirements of the mainland policy. At the same time, understanding the differences between concentrating investment in one region and scattering investment in various regions in terms of the benefits and costs, can there be plans on policy focus.

As for domestic investment, the government and private sector, domestic businesses and foreign-owned businesses are involved. The investment experience of the past decade indicates that small government investment has been the main cause for insufficient domestic investment. The Six-Year National Construction Plan surely provides some remedy, but leaves the impression of

being an overkill. In the future it is necessary to change the method of carrying out public construction only when forced by the existence of fiscal surplus. Instead it is necessary to carry out construction investment in a steady manner to provide a basic precondition for improving the investment environment and the quality of life.

As for private investment, it is first of all necessary to find out whether domestic businesses and foreign businesses are treated the same way. We are a net capital outflow country, and surely do not want to see foreign governments treating our businesses differently than their local businesses. If so, there then does not seem to be any need to place restrictions on investment by foreign businesses in terms of trades, the amount of money, and technology. This may be a place where the policy on foreign investment for the last decade or two should be thoroughly reexamined.

In addition, domestic private investment mainly involves sectoral differences and industry differences. The so-called weak investment desires refers mainly to traditional manufacturing sectors. This is fully demonstrated by the decrease in the share of the manufacturing sectors in the gross domestic product. However, some individual firms, especially some large or mid-sized firms, did not experience decline in investment, on the contrary, they have experienced large increases in investment, thanks to the operation of the capital market or to the lifting of restrictions on the financial sector. Just imagine how many manufacturing firms of a substantial size a bank with 10 billion dollars in capital is the equivalent to! Therefore, domestic investment inclination is not weak; rather there has just been a clear change in terms of where the investment is going.

In fact, not just domestic businesses are showing a tendency towards investing in the service sectors, but foreign investors are also demonstrating the same tendency in their applications. At the same time, because the domestic system of chemical and heavy industries is a comprehensive one, those industries have also become the favorites of foreign businesses; however, this can create pressure with regard to environmental protection. The real issue in relation to domestic investment environment and inclination is what attitude and policy to adopt with regard to the direction of new business investment. This issue also involves the direction of capital flows between different sectors and industries, as well as the obstacles to, and potentials of, such flows. Only discussions of the investment issue at such a level can result in a comprehensive investment policy. The current policy which overemphasizes the manufacturing sectors and industrial sectors may be misguided to some extent. If the Economics Ministry can cooperate with the Investment Approval Commission, and if the two can jointly formulate and implement an integrated investment policy that covers domestic and overseas investment in the planning, and is based on a consideration of the problem of different sectors crowding each other out in terms of investment, then a comprehensive investment policy may be put into effect.

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